INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/392

LIBERIA

December 2016

FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AUGMENTATION OF ACCESS, AND EXTENSION OF THE ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBERIA

In the context of the Fifth and Sixth Reviews Under the Extended Credit Facility Arrangement, Request for Waivers of Nonobservance of Performance Criteria, Augmentation of Access, and Extension of the Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 16, 2016, following discussions that ended on October 26, 2016, with the officials of Liberia on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 1, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Liberia.

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

Letter of Intent sent to the IMF by the authorities of Liberia*
Memorandum of Economic and Financial Policies by the authorities of Liberia*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

Copies of this report are available to the public from
International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 16/565
FOR IMMEDIATE RELEASE
December 16, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth and Sixth ECF Reviews for Liberia, Increases Access, Extends the Arrangement, and Approves US$37.1 million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fifth and sixth reviews of Liberia's economic performance under the program supported by the Extended Credit Facility (ECF)[1] arrangement. Completion of these reviews enables the immediate disbursement of SDR 27.69 million (about US$37.1 million). This brings total disbursements under the arrangement to SDR 96.9 million (about US$129.9 million).

The Executive Board also approved the authorities' request to waive the non-observance of performance criteria. The waivers pertains to the end-December 2015 floors on total revenue collection of the central government and the net foreign exchange position of the Central Bank of Liberia and to the end-June 2016 performance criteria on floors on total revenue collection of the central government, net foreign exchange position of the Central Bank of Liberia, and the ceiling on the Central Bank of Liberia's gross direct credit to the central government. It also approved the authorities' requests to augment access under the program by SDR 27.69 million (about US$37.1 million), of which SDR 12.9 million (about US$17.3 million) would be directed to the budget, and to extend the program until November 18, 2017.

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

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

---

[1] The Extended Credit Facility (ECF) is the IMF's main tool for medium-term financial support to low-income countries. It provides for a higher level of access to financing, more concessional terms, enhanced flexibility in program design, and more focused, streamlined conditionality. Financing under ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years. (see http://www.imf.org/external/np/exr/facts/ecf.htm).

“After the end of the Ebola epidemic, a weak global commodity price environment has delayed Liberia’s economic recovery. Low prices for iron ore and rubber have led to significant cutbacks in output and investment. In addition, the withdrawal of UNMIL peacekeepers has reduced demand for local services.

“The authorities have managed to maintain macroeconomic stability in a difficult economic situation, and remain committed to strong program implementation. However, program performance has been mixed on account of the challenging economic situation as well as policy choices, including open bank assistance by the central bank. The pace of structural reform has been slow reflecting limited capacity and weak prioritization, due in part to the transition of the economic management teams at the ministry of finance and central bank.

“Fiscal policy has appropriately responded to the commodity price shock, thanks to new revenue measures accompanied by increased spending discipline. In the coming years, fiscal prudence is needed, including through the introduction of the VAT and the rationalization of the wage bill. Progress on public financial management reforms, especially the Treasury Single Account, investment management, and financial control of state-owned enterprises, will be important to support fiscal consolidation efforts.

“Borrowing policies should remain prudent. The authorities’ success so far in respecting the debt limits under the new debt limit policy is commendable. In addition, preserving debt sustainability will require prioritizing concessional loans and carefully contracting new borrowing through sound project appraisal.

“Rebuilding external buffers will require a rigorous implementation of the central bank’s three-year financial plan and limiting foreign exchange intervention to smoothing volatility. Good liquidity management should be relied upon to anchor inflation. The closure of the First International Bank of Liberia Limited (FIBLL) is welcome, and the forensic audit launched by the central bank enhances its credibility and transparency. Lessons from this experience point to the importance of strengthening frameworks for emergency liquidity assistance, bank resolution, and deposit insurance.”

INTERNATIONAL MONETARY FUND

LIBERIA

December 1, 2016

FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AUGMENTATION OF ACCESS, AND EXTENSION OF THE ARRANGEMENT

EXECUTIVE SUMMARY

Context. Recovery from the Ebola epidemic is delayed by the persistent impact of the commodity price decline and the United Nations Mission in Liberia (UNMIL) withdrawal. Weak economic activity—particularly in the natural resource sector—is affecting government revenues, while spending is under pressure from the cost of elections and security handover from UNMIL.

Request. The Liberian authorities request waivers of nonobservance of performance criteria for the completion of the fifth and sixth reviews, augmentation of access of 10.7 percent of quota (about US$39 million), of which 5 percent of quota would be directed to the government budget, and extension of the ECF until November 18, 2017.

Key risks. The most immediate risk is the worsening of security post-UNMIL withdrawal, particularly in the run-up to the elections. More Ebola cases—even if small-scale—would further undermine confidence and activity.

Policy recommendations.

- Maintain fiscal discipline in the run-up to the elections and accelerate fiscal reforms, especially in public financial management.

- Build external buffers, including through the three-year financial plan of the Central Bank of Liberia, while allowing for adequate exchange rate flexibility.

- Prioritize grant and highly concessional financing and limit new external government borrowing to maintain debt sustainability.

Program performance. Two end-December 2015 performance criteria (PCs) were missed (government revenue and net CBL foreign exchange position) while three end-June PCs were missed (government revenue, net CBL foreign exchange position and gross direct credit to the government). Two out of nine structural benchmarks (SBs) for the fifth review were met, while three were completed with delay. Three out of five SBs for the sixth review were met.

Program status. The IMF Executive Board completed the fourth ECF review on December, 21 2015, after a brief technical extension. The Board approved an ad-hoc ECF augmentation on September 26, 2014 (25 percent of quota), and an RCF disbursement (25 percent of quota) and debt relief (20 percent of quota) under the Catastrophe Containment and Relief Trust on February 23, 2015 to help the country meet the balance of payments and fiscal needs caused by the Ebola outbreak.

Approved By
David Owen and Daria V. Zakharova

Discussions were held in Monrovia (October 12 –26, 2016). The mission comprised Mr. Sdralevich (head), Messrs. Chawani, Oshima, and Walker (AFR) and Shibata (SPR). Mr. Amo-Yartey, resident representative, and Mr. Deline, local economist, assisted the mission. Mr. Jappah (OED) attended the policy meetings. The mission met with President Johnson Sirleaf; Minister of Finance and Development Planning Kamara; Central Bank Governor Weeks; other senior officials; representatives of the private sector; and development partners.

CONTENTS

TABLES

ANNEXES

APPENDIX

BACKGROUND

1. **Liberia is preparing for the upcoming October 2017 presidential and general elections**. As the re-election of the current president is barred by term limits, Liberia will have a new president from January 2018. Security was transferred from the United Nations Mission in Liberia (UNMIL) to the national authorities in June 2016. In September 2016 the UN Security Council extended UNMIL by three months for up to some 1,800 military and police personnel in Monrovia to support the security transition.

2. **The fallout from a corruption case affected parliamentary activity**. The Sable Mining corruption case implicated several senior political figures, including the House Speaker. The Speaker's resignation in September 2016 capped a long struggle between parliamentary factions supporting or opposing his tenure, culminating in split sessions for most of the month and delayed parliamentary proceedings. Thus, the FY2017 budget was only approved at the end of September.

3. **The two key economic policy institutions went through a leadership transition**. Minister Kamara, previously Deputy Governor of the Central Bank of Liberia (CBL) took the leadership of the Ministry of Finance and Development Planning (MFDP) after Minister Konneh resigned in the spring. Governor Weeks was appointed in May following the expiration of Governor Mills Jones' second term. Several other high-level officials at both institutions also changed position.

4. **The Ebola Virus Disease (EVD) has been contained**. The World Health Organization (WHO) declared Liberia Ebola-Free for the third time on June 9, 2016, following a few isolated cases which took place after two similar declarations in May and September 2015.

5. **Concerns about the resolution of a troubled bank delayed the completion of the fifth review**. The CBL resolved First International Bank of Liberia Ltd (FIBLL), to which it had extended an emergency credit of over US$19 million, through a Purchase and Assumption (P&A) operation involving the sale of most of FIBLL's balance sheet to a foreign private equity group, as opposed to outright liquidation as recommended by staff. The modality of the resolution of FIBLL raised concerns over possible risks of further CBL exposure to the successor commercial bank. The delay in the completion of the fifth review allowed the CBL and staff to design and implement measures that would allay these concerns.

6. **The authorities are requesting the extension of the ECF arrangement to November 2017 and access augmentation of 10.7 percent of quota**. The extension of the ECF, now scheduled to expire at end-December 2016, would help the authorities maintain macroeconomic stability, fill a balance of payment gap in 2017, and advance structural reform in the run up to the election. A first installment of the augmentation for 5 percent of quota (about US$18 million) would be disbursed at completion of the fifth and sixth reviews and fill the balance of payments financing gap in 2016 stemming from a government budget financing gap largely caused by the commodity price shock. This installment will be directed to the government budget. The remainder of the augmentation for 5.7 percent of quota would be disbursed to fill a balance of payment gap in 2017

through two additional reviews with test dates of end-December 2016 and end-June 2017. The authorities' requests are justified by the exogenous nature of the commodity price shock and the implementation of strong corrective actions in the fiscal, monetary, and financial sector areas.

AN ECONOMY STILL UNDER STRESS

7. After Ebola, the economy is still not recovering. The impact of the commodity price shock is turning out to be stronger than originally anticipated, with the concession companies retrenching activity beyond their initially planned downsizing. In addition, the UNMIL withdrawal is dragging down the economy, especially services, and a heavy rain season has affected logging and hampered the expansion of gold production. As a result, real GDP is projected to contract by 0.5 percent in 2016. In line with anemic economic activity, private sector credit is projected to contract in real terms in 2016, hampering banks' risk aversion amid still high levels of NPLs.

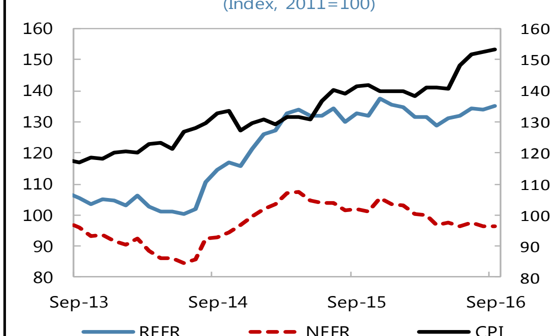
8. Inflation is picking up. Inflation rose to 9.9 percent in August, and average inflation for 2016 is projected at 8.7 percent, reflecting depreciation of the Liberian dollar and, to a lesser extent, the impact of higher indirect taxation in the telecommunication and transport sectors.

9. The current account deficit is relatively stable. Exports are projected to fall by 3.6 percent in 2016 relative to 2015, and Ebola and UNMIL-related grants are also declining. However, imports are also expected to decline steeply mainly because of lower grant-financed imports. As a result, the current account deficit is projected to remain stable at 32 percent of GDP in 2016.

10. Gross official reserves are projected to increase from US$446 million at end-2015 (2.6 months of imports) to US$469 million at end-2016 (2.9 months of imports). The CBL's net foreign exchange position is also set to pick up this year, from US$164 million to US$181 million. The improvement is made possible by the implementation of the three-year financial plan adopted at end-2015 and the CBL's moderate interventions in the foreign exchange market, despite the increase in CBL exposure to FIBLL.

11. The Liberian dollar depreciation accelerated. The exchange rate to US dollar depreciated by 11.2 percent in the first 10 months of 2016 compared to 4.2 percent in the same period in 2015. The depreciation is largely due to lower CBL interventions in the first half of the year, as the government reduced its sales of foreign exchange to the central bank on the back of lower dollar revenues, particularly from trade, and donor financing. The real effective exchange rate (REER) remained broadly stable in the first nine months of 2016 (Text Chart 1), reflecting higher inflation differential and faster depreciation. As a result, as of end-September, the REER remained overvalued by about 20 percent in line with the 2016 Article IV

Text Chart 1: Effective Exchange Rate
(Index, 2011=100)



assessment. To absorb Liberian dollar liquidity, the MFDP issued a L$6 billion (about US$64 million) two-year T-bond in the first quarter of FY2017 (third quarter of 2016).

12. Program performance is mixed. The stronger-than-expected impact of the commodity price shock, but also policy slippages underlie the deviation from program targets:

- **End-December 2015 quantitative targets**: The performance criterion (PC) on government revenue was missed by US$7 million (0.4 percent of GDP), reflecting lower revenues from the natural resources sector. The PC on the net foreign exchange position was breached by US$20 million (1 percent of GDP) because of lower-than-expected external inflows, but also higher foreign exchange interventions and the increase in CBL exposure to FIBLL.

- **End-June 2016 quantitative targets**: Reflecting continued weakness in natural resource revenue, the PC on government revenue was missed by US$21 million (1 percent of GDP). The net foreign exchange position PC was missed by US$14 million (0.7 percent of GDP). The lower deviation compared to end-2015 reflects improved performance of the CBL budget. In parallel to the net foreign exchange position deviation, the PC on the CBL's gross direct credit to central government was missed by US$0.5 million.

- **Structural reform**: Only two out of the nine structural benchmarks (SBs) for the fifth review were met (extension of IFMIS coverage and submission of project analyses), while additional three were completed with delay. Three out of five SBs for the sixth review were met (extension of IFMIS coverage, publication of quarterly SOE reports, and submission of quarterly financial statements of the CBL).

13. The authorities put in place strong corrective actions. The government has implemented a revenue package comprising measures for the FY2017 budget and additional measures introduced in November 2016, and has advanced revenue administration reform to improve tax compliance and capacity of the Liberia Revenue Authorities (LRA), with close support by the Fund and other donors. The CBL has strengthened international reserves through the implementation of the three-year financial plan, while limiting market interventions in the first half of 2016. The CBL also agreed on measures to strengthen the resolution of FIBLL and put the successor bank on a stronger footing.

POLICY DISCUSSIONS

Discussions focused on: (i) finalizing fiscal plans for FY2017, including revenue and expenditure measures to address the shortfall in government revenues triggered by the commodity price shock and weak economic growth, and fiscal reform, particularly in PFM; (ii) improving external buffers of the CBL, notably through the implementation of the three-year plan; (iii) addressing financial sector vulnerabilities, particularly the closure of FIBLL and measures to strengthen its resolution; and (iv) tightening debt limits to adapt to reduced borrowing space.

A. Outlook and Risks

14. The medium-term macroeconomic outlook is still favorable. Growth is projected to rebound to 3.2 percent in 2017, thanks to a further expansion in commercial gold production and continued growth in the agricultural sector supported by the Liberian Agricultural Transformation Agenda (LATA), even though rubber production is expected to remain stagnant. Medium-term growth of about 6 percent, still below the pre-Ebola 10-year average of over 7 percent, will be driven by a rebound in mining activity, particularly gold production, and sustained growth in all other non-mining sectors of the economy, notably thanks to improved electricity availability including from the finalization of the Mount Coffee hydropower plant which remains on track to come on stream by end-2016.

15. But, risks to the outlook remain high (Annex 1). The most immediate risk is the worsening of security post-UNMIL withdrawal, particularly in the run-up to the elections. More cases of Ebola—even on a small, contained scale as in the last year—would undermine confidence and activity. Weaker-than-expected market conditions for commodities could undermine government revenues and force the government to cut expenditure to unsustainable levels, which could crowd out priority social spending. The worsened macroeconomic outlook and high investment needs and borrowing pressures increase debt risks. Increasing financial sector vulnerabilities including a further loss of correspondent banking relationships could undermine the sector's contribution to the economic recovery.

Text Table 1. Liberia: Selected Economic Indicators, 2014–21

	2014	2015	2016	2017	2018	2019	2020	2021
	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change)							
Real sector								
Real GDP	0.7	0.0	-0.5	3.2	5.2	5.7	6.0	6.6
Consumer prices (annual average)	9.9	7.7	8.7	9.7	8.1	7.5	7.1	7.5
	(Percent of GDP, fiscal year)							
Central government operations[1]								
Total revenue and grants	27.4	32.5	31.4	30.9	27.6	27.0	27.6	28.2
Total expenditure and net lending	29.3	40.9	35.6	39.4	33.6	31.5	31.0	31.4
Overall fiscal balance, including grants	-1.9	-8.4	-4.2	-8.5	-6.0	-4.5	-3.4	-3.2
Public external debt	13.2	23.0	28.0	33.6	37.4	38.1	37.5	36.8
	(Percent, unless otherwise indicated)							
Monetary sector								
Credit to private sector (annual change)	5.6	8.1	9.0	7.6	10.2	11.7	13.7	13.1
	(Percent of GDP, unless otherwise indicated)							
External sector								
Current account balance, including grants	-26.9	-32.2	-31.8	-28.2	-24.4	-23.4	-22.7	-22.5
Gross official reserves (millions of U.S. dollars)	411	446	469	501	528	566	566	626
Months of imports of goods and services[2]	2.5	2.6	2.9	3.2	3.2	3.3	3.2	3.3
CBL's net foreign exchange position[3] (millions of U.S. dollars)	179	164	181	192	219	272	382	442
Terms of trade (annual percent change)	-10.7	-26.4	…	…	…	…	…	…

Sources: Liberian authorities and IMF staff estimates and projections.

[1] Including selected off-budget items, such as Mt. Coffee project and Ebola-related activities. Fiscal data and projections refer to fiscal year (July - June).

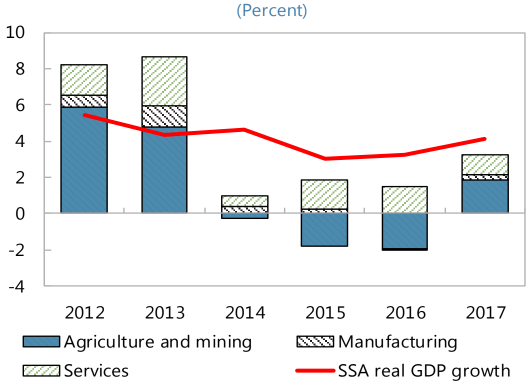
[2] In months of next year's imports excluding imports related to UNMIL operations and FDI projects such as iron-ore concessions.

[3] 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.

Figure 1. Liberia: Recent Economic Developments

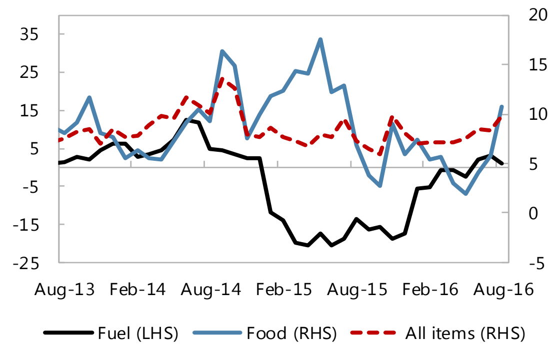
The economy is not expected to rebound in 2016, and moderate growth is projected for 2017.

Contribution to Growth
(Percent)



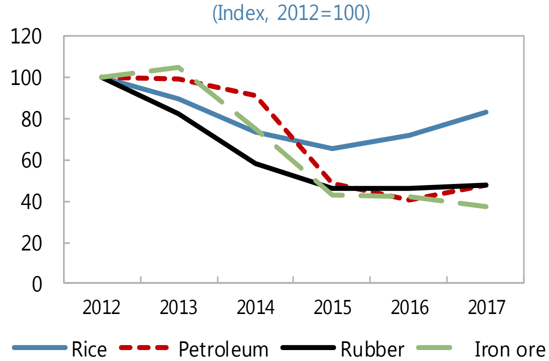
Inflation is picking up fueled by the depreciation of the currency.

Inflation and components
(12-month percent changes)



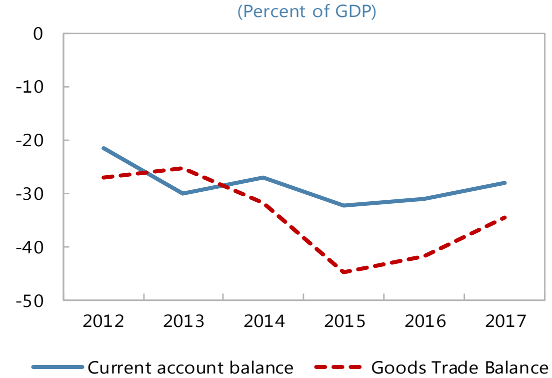
The soft price environment is likely to persist in the near term.

Commodity Prices
(Index, 2012=100)



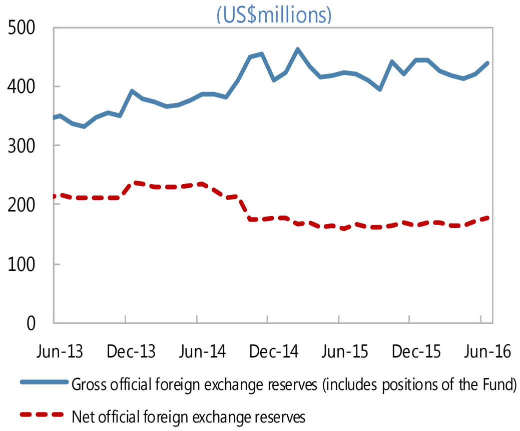
With Ebola gone, the current account deficit is relatively stable.

Current Account Balance
(Percent of GDP)



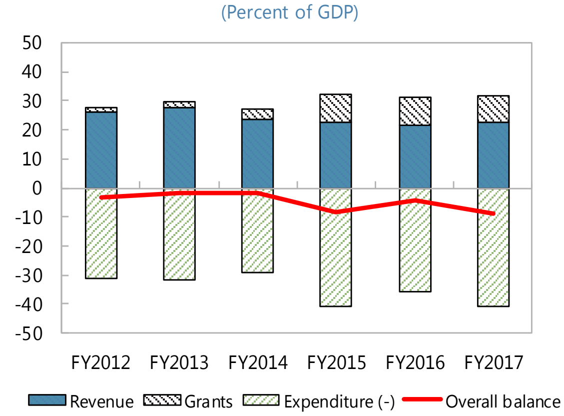
Gross official reserves remain below three months of imports but the central bank's net position has stabilized.

Official Foreign Exchange Reserves
(US$millions)



Government is under pressure stemming from elections and security related expenditures.

Fiscal Policy
(Percent of GDP)



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

B. Fiscal Policy

16. The government under executed the FY2016 budget. Reflecting stronger-than-expected impact of commodity shock on the government revenue, domestic revenue was US$453 million (22 percent of GDP), about 4 percent lower than the approved budget. Based on an austerity draft revised budget (never approved by the Legislature), the government reduced spending by about 10 percent compared with FY2015 spending. The under execution of the budget allowed the government to achieve a budget deficit of US$23 million (1 percent of GDP) and an overall fiscal deficit of US$87 million (4.2 percent of GDP), including off-budget project spending.

Text Table 2. Liberia: Budget, FY2016 and FY2017
(Millions of U.S. dollars)

	FY2016	FY2017	
	Outturn (Baseline)	No-policy Scenario	Budget Projection (Baseline)
Revenue and grants	**521**	**485**	**549**
Revenue	453	435	499
of which : Revenue shortfall by commodity price and slow recovery	-21	-85	-85
Tax	402	386	403
of which : Revenue measures (1)		-	17
Increase in GST		-	13
Tax on beverages		-	1
Tax on tobacco		-	1
Tax on other goods and services		-	1
Increase in real estate tax		-	0.5
Non-tax	51	49	96
of which : Revenue measures (2)		-	34
GSM excise		-	3
Outbound call surcharge		-	2
Storage surcharge		-	29
Grants	68	50	50
Expenditure	**544**	**618**	**576**
Current	492	577	539
of which : Exceptional spending		30	30
of which : Spending measures (3)		-	-38
Compensation of employees		-	-13
Goods and services		-	-18
Subsidies and transfers		-	-7
Capital	52	42	37
of which : Spending measures (4)		-	-5
Budget balance	**-23**	**-133**	**-27**
Financing	**37**	**-13**	**-11**
Borrowing	28	0	0
Amortization	-13	-13	-13
Deposit financing (+: withdrawal, -: deposit)	22	0	2
Financing gap (+ surplus, -: deficit)	**15**	**-146**	**-38**
ECF augmentation (5 percent of quota)			18
World Bank additional budget support			20
Memorandum			
Total shock (revenue shortfall and exceptional spending)		115	115
Total adjustment (revenue and spending measures; = (1) + (2) + (3) + (4))		-	93
Overall balance, including off-budget activities	-87	-185	-185
of which ; Public investment financed by loans	-1	154	154
Nominal GDP (Millions of U.S. dollars)	2080	2183	2183

Source: Liberian authorities; and IMF staff estimates and projections.
Note: This table aggregates all the measures that the government introduced to the FY2017 budget while Text Table 1 in the Memorandum of Economic and Financial Policies (Appendix I) separately shows measures depending on the timing of their introduction. Therefore, these tables have different presentations although both summarize the FY2017 budget, but underlying projections are the same.

17. Fiscal pressures are higher in FY2017. First, revenues from the natural resource sector continue to be weak and growth is not recovering as expected, reducing projected FY2017 government revenues on unchanged policies by about US$85 million (4 percent of GDP) compared to revenue projections at the time of the completion of the fourth review. Second, the government in FY2017 will need to finance US$30 million one-off exceptional spending related to the elections (US$22 million) and the security handover from UNMIL (US$8 million). Third, because of the frontloading related to the Ebola epidemic, expected donor budget support (excluding Fund augmentation and World Bank support) would decrease from US$96 million (4.6 percent of GDP) in FY2016 to US$50 million (2.3 percent of GDP) in FY2017, a drop of $46 million compared to the average of the last four fiscal years.

18. The approved FY2017 budget—despite strong revenue and expenditure measures—proved soon unrealistic. In September 2016, the Legislature approved an FY2017 budget of US$600 million, with US$532 million in domestic tax, non-tax revenues, and deposit financing sources and US$68 million in external budget support (including the expected Fund augmentation).

However, the downward revision of economic growth in 2016–17 and the delay in approval of the budget are now expected to reduce FY2017 revenues by US$37 million compared to the budget. On this basis, in consultation with staff, the authorities adopted further revenue and spending measures in November 2016. The revised fiscal plans, envisaging a government deficit of US$27 million (1.2 percent of GDP) will be reflected in a supplementary budget that the government plans to submit to the January 2017 parliamentary session. The overall fiscal deficit (including domestically- and externally-financed off-budget items) would increase from 4.2 percent of GDP in FY2016 to 8.5 percent of GDP in FY2017 as the government executes steps up the execution of delayed Ebola-related and infrastructural spending, which are financed in FY2017 through the drawdown of yet unused external grants and domestic loans.

19. The comprehensive package of fiscal measures for FY2017 reflects the authorities' commitment to address fiscal pressures. The adjustment, estimated as the revenue effort plus the expenditure cuts from inflation-adjusted FY2016 original budget levels, would be about US$93 million or 4.2 percent of GDP for FY2017. This policy effort compares to a fiscal shock from revenue shortfall and exceptional spending estimated at US$115 million.

- ***Revenue measures for a total of US$63 million (3 percent of GDP) on an annual basis***. Measures approved by the Legislature as amendments to the Liberia Revenue Code (LRC), for a total of US$33 million include: (i) increase in the General Sales Tax (GST, US$20 million); (ii) additional excises on tobacco, alcohol and non-alcohol beverages, and introduction of an international outbound call excise and GSM excise (for a total of US$12 million); and (iii) increase in real estate tax (US$0.5 million). In addition to these measures, the government applied a 30 US cent per gallon increase in administrative fuel storage surcharges collected by the Liberian Petroleum Refining Company (LPRC) starting in January 2016 (US$30 million). Taking into account the timing of the implementation of the various measures, the yield of all these measures in FY2017 would amount to for US$51 million or 2.3 percentage points of GDP.

- ***Spending measures***. Cabinet approved austerity measures in June 2016 including: reducing consultant services; freezing new hiring (except in education, health, and security); limiting official travel, printing and publication; and reducing purchases and maintenance of vehicles. Investment under the domestically-financed Public Sector Investment Plan (PSIP) was limited to existing projects. Additional November 2016 measures include additional cuts by about 4 percent from the budget expenditure ceiling (about US$11 million) of goods and services purchases, subsidy and transfers, and capital spending. Total spending adjustment compared with expenditure plan under the original FY2016 budget would be US$38 million.

20. IMF and World Bank exceptional budget support would fill the remaining financing gap of US$38 million in FY2017. The first installment of the access augmentation under the ECF arrangement requested by the authorities (US$18 million) and World Bank's additional budget support grant (US$20 million), including US$8 million from the Crisis Response Window, delivered through Development Policy Operation would fill the balance of payments gap. The Fund disbursement would be channeled to budget support, which will help avoid unsustainable expenditure cuts. Even with exceptional assistance, total FY2017 budget support of US$86 million would still fall short of FY2016 levels of US$96 million.

21. The authorities plan to maintain a tight fiscal stance in FY2018. External budget support is expected to remain limited while the government will still have to finance some of the exceptional spending for the elections and security. The authorities intend to maintain the overall spending envelope constant in nominal terms. Higher revenues from the rebound in economic activity and ongoing revenue administration reform should compensate the expected decline in external assistance.

C. Fiscal Reform

22. The authorities intend to push ahead with fiscal reform:

- **Tax policy and administration**: With support from the IMF and other donors, the LRA has widened the tax base, improved tax compliance, and built capacity. The achievements include introducing desk audit system for large tax-payers, completing sectorial audit manuals, providing workshop to taxpayers, and signing Memorandum of Understanding with other government agencies, such as Liberia Anti-Corruption Commission. The government is reviewing the LRC for further amendments, including natural resource taxation, consistency between tax code and non-tax revenue, regional tariff harmonization, and simplification and avoidance of ambiguity in the tax code. Key changes (reflected above) were approved by the Legislature together with the FY2017 budget, but shortcomings remain. In addition, the government has been preparing for VAT implementation in 2018. A draft VAT bill is under preparation.

- **Natural resource taxation**: The government is formalizing the deferral of social contributions by the concessions, which would replace the informal agreement not to collect the contributions and allow the government to collect 50 percent of the dues and to receive the deferred contributions starting in FY2019 (*structural benchmark*).

- **Procurement**: The Public Procurement and Concessions Commission (PPCC) has modernized and stepped up the enforcement of public procurement processes, helping to avoid unfunded expenditure commitments. The PPCC has rolled out the pre-qualification of potential bidders, and has recently launched the standardization of procurement contracts and pre-approval framework. The PPCC aims at improving the rate of timely submission of draft procurement plans for the FY2018 budget to 50 percent of ministries and agencies receiving budget allocations (*structural benchmark*).

- **Public investment management**: The establishment of the domestically-financed public investment database and the expansion of the externally-financed database (structural benchmarks for the fifth review) have been lagging because of capacity constraints, technical difficulties, and poor coordination among MFDP and line ministries and agencies. With assistance from the Fund, the authorities have stepped up efforts to develop these tools crucial to improving their capacity to manage and increase the impact of investment spending. The completion of the domestically-financed project database is a *prior action* and the expansion of externally-financed project database is a *structural benchmark* for December. The MFPD is also preparing an action plan to implement the recommendations of the recent 2016 Public Investment Management Assessment (PIMA) conducted by FAD (Box 1).

- **Treasury Single Account (TSA)**: The MFDP is preparing a strategy paper for the extension of the TSA which has still a relatively limited coverage. The strategy envisages a technical working group composed by MFDP, CBL, and commercial banks which should agree on a memorandum of understanding on the operations of the TSA.

- **SOEs**: Loss-making SOEs draw resources from the budget and may also create contingent liabilities. The authorities are committed to improve transparency of SOEs activities and financial control. To this end, the MFDP is now regularly publishing a quarterly report of 13 largest SOEs, which will be expanded to include below-the-line information by end-FY2017 (ongoing *structural benchmark*).

- **PFM strategy**: The MFDP is updating PFM reform strategy to cover FY2017–19. The new strategy will reflect the findings of 2016 Public Expenditure and Financial Accountability (PEFA) assessment and the 2016 PIMA. In addition, the PFM Act is being amended based on the Fund recommendations.

Box 1. Technical Assistance Report: Public Investment Management Assessment[1]

A Fiscal Affairs Department (FAD) Public Investment Management (PIM) Assessment took place in July 2016. The assessment concludes that the overall performance of PIM in Liberia is in line with that of comparable low-income countries, reflecting the country's post-conflict status, which severely damaged its infrastructure, and heavy dependence on external loans and grants.

PIM suffers from a number of weaknesses. These include: (i) the absence of an integrated pipeline of projects for domestic or external funding that have passed tests of economic and social viability; (ii) poor communication the execution of projects between ministries and agencies and the MFDP; (iii) the absence of an integrated database of planned and ongoing public investment projects; and (iv) a recently established but still largely ineffective oversight role for the MFDP.

The assessment makes seven high-priority recommendations for 2016–17:

- Prepare a framework paper on the PIM cycle which develops a pipeline of sector projects;
- Strengthen the legal framework for PIM;
- Improve the presentation of development projects in the annual budget documents;
- Establish and enforce rules for prioritizing PSIP projects and the payment of counterparty funds in issuing allotments for budget execution;
- Establish a comprehensive database of externally and domestically financed projects;
- Improve the organizational structure of the MFDP; and
- Prepare an inventory of all documents and reports relating to the preparation, appraisal, evaluation, and execution of public investment projects which are submitted to the MFDP or generated within it.

[1] September 2016

D. Monetary and Exchange Rate Policy

23. The CBL succeeded in improving its foreign exchange position. Despite lower foreign exchange sales from the government in the first half of 2016, the CBL managed to strengthen its international reserve position. Going forward, the authorities are committed to increase external buffers to above three months of imports to strengthen credibility and resilience to shocks, particularly in the run-up to the elections. To this end, the CBL intends to:

- **Implement the three-year financial plan**: The CBL has broadly adhered to the plan launched in December 2015 (prior action for the fourth review). The deficit in 2016 is projected to be US$2.1 million (13 percent) higher than planned, mainly because of a previously unbudgeted portion of the cost of printing banknotes, for an amount of $3.9 million out of a total of US$5.2 million. The CBL undertook the much-delayed printing following an unexpected green light by the Legislature, which has veto power over issuance of banknotes. The CBL absorbed about 60 percent of the cost through a reduction of US dollar operational expenses. A similar approach may be needed to absorb the cost of further issuance of banknotes in 2017.

- **Moderate its foreign exchange interventions**: In order to achieve its reserve targets, the CBL has limited its interventions and allowed increased exchange rate flexibility, with the Liberian dollar projected to depreciate by 12 percent to the US dollar in 2016 compared to 7 percent in 2015.

- **Institute an Asset and Liability Committee (ALCO)**: In light of the need to actively manage balance sheets and expenses, the CBL intends to establish an ALCO to oversee risk management, balance sheet, and financial performance *(structural benchmark for the eighth review)*.

24. Liquidity management coordination has resumed after a slowdown caused by the transition at the CBL and MFDP. Coordination between MFDP, CBL, and LRA is crucial in light of high dollarization (including in government operations) and large lump-sum external assistance inflows. Meetings of the Liquidity Working Group (LWG) have been irregular over the summer, contributing to sharp fluctuations in Liberian dollar liquidity conditions. Submission of key inputs to the liquidity framework has been hampered by the transition of high-level officials at the CBL and MFDP and upgrading of the CBL's core banking application to Temenos 24. However, coordination has recently resumed, also in reaction to high liquidity volatility, resulting in the September 2016 issuance of a two-year, L$6 billion bond by the CBL on behalf of the MFDP with a yield of about 15 percent, well-above the average of 3 percent for Treasury bills.

E. Financial Sector Vulnerabilities

25. In the course of 2014–16, the CBL extended financial support to FIBLL, an insolvent bank. FIBLL was a medium-sized bank with a market share of 4.7 percent of total deposits (about 1 percent of GDP) in 2015, majority owned by the FIB group of Gambia. As a result of prolonged mismanagement and deteriorating performance since 2013, the bank slid into insolvency in 2014 with NPLs rising to 70 percent of total loans. To prop up the bank, the CBL extended an uncollateralized line of credit of US$12 million with a one-year maturity in 2014, which was fully used by January 2016, and an additional US$7.3 million in the course of 2016 for a total exposure of US$19.3 million (about 1 percent of GDP).

26. As its exposure mounted, the CBL decided to resolve FIBLL with support from the Fund. The CBL support was motivated initially by risks to systemic liquidity and, later, by the impact of possible failure of the bank on the financial system, access to finance, and employment. However, the effectiveness of CBL's support to FIBLL was undermined by lack of collateral and the poor prospects to restore the bank's solvency, in the absence of an emergency liquidity assistance framework which would have clarified the scope, objectives, and limitations of liquidity support. With options limited by the absence of a bank resolution scheme and an increasing drain on its international reserves, incompatible with the objectives of the ECF, the CBL agreed with Fund staff to resolve the bank with technical assistance from the Fund.

27. However, the CBL pursued an A&P resolution scheme as opposed to the outright liquidation recommended by staff. The CBL closed FIBLL in June 2016 as agreed with staff, but sold most of its assets and liabilities to a Ghanaian private equity group through a P&A transaction, as opposed to an outright liquidation as recommended by staff. The deal envisaged the injection by the buyer of US$18.4 million in the successor bank, GN Bank. The CBL had to absorb all its exposure which was excluded from the P&A arrangement.

28. Concerns over the modality of resolution of FIBLL delayed the completion of the fifth review. The CBL argued that a P&A transaction would avoid losses for depositors in the absence of a deposit insurance scheme, minimize the cost to the public sector, achieve continuity in banking services, and maintain public confidence in the financial system. In contrast, staff's recommendation for an outright liquidation stemmed from concerns about risks for future open bank assistance to the successor bank in light of the large losses of FIBLL operations, the ambitious business plan of the new buyers, their limited track record in banking, and the challenging economic environment in the country.

29. Over the summer and fall, CBL and staff agreed on measures to mitigate concerns over the resolution of FIBLL and minimize risks to the CBL. Measures include:

i. Forensic audit of FIBLL covering the causes of FIBLL losses and the CBL supervision of the bank that will be conducted by an internationally reputable firm, with an interim report to be shared with staff (*prior action* for the fifth and sixth ECF review); the authorities will share the final report of the audit with Fund staff and transmit the results to the relevant judicial authorities (*structural benchmark*), and committed to publishing the audit's findings;

ii. Commitment by the buyers to promptly correct any capital shortcoming, as outlined in the P&A agreement; and

iii. Special monitoring of the bank with monthly reporting of GN Bank Financial Soundness Indicators (FSIs) and quarterly financial statements to the Fund.

30. The CBL is also moving to address the gaps in the safety net architecture exposed by the FIBLL episode. With technical assistance from the Fund, the CBL is working on: (i) procedures for an emergency liquidity assistance (ELA) framework (*structural benchmark*) in addition to recently issued revised regulations for a standing credit facility and minimum reserve requirements; (ii) a special resolution regime to take over and transfer, without shareholders' approval or involvement of the courts, assets and liabilities of a failing bank to an authorized institution; and (iii) a deposit insurance scheme, designed in accordance with international good practices, to offer depositors more meaningful protection against potential banking system distress.

31. The CBL is implementing a strategy to reduce NPLs. NPLs to total loans have declined substantially to 13.5 percent in August 2016 from 19.2 percent in August 2015. The decline is largely due to write-off of FIBLL NPLs, the recovery of lending post-Ebola, and the restructuring of some loans. The CBL has renewed efforts to reduce NPLs mainly to facilitate credit to the private sector. The CBL has resumed the "name and shame" initiative in October 2016 that involves publishing names of noncompliant delinquent borrowers in the press. The measure is being complemented by enforcement of the regulation on mandatory write-offs of fully provisioned recoverable legacy NPLs.

32. The CBL is enhancing supervision and Anti-Money Laundering/Combatting the Financing of Terrorism (AML/CFT) regulations. Mindful that withdrawal of correspondent banks is impacting trade finance, flow of remittances, humanitarian aid, and financial inclusion, the CBL has established a dedicated AML/CFT supervision unit. The CBL is also working closely with the Financial Intelligence Unit (FIU) to address gaps in financing of terrorist activities and criminalization of illicit trafficking of goods.

F. External Sector Issues

33. Mainly due to weak export prospects, Liberia's borrowing space has tightened. Liberia's risk of debt distress moved from low to moderate in 2015 as contracting of new debt accelerated and the economic outlook worsened following the Ebola and commodity price shocks. With continued economic weakness, particularly in exports, the DSA shows that the current risk rating of debt distress remains moderate, but is close to high, especially because of debt-to-export ratios close to the threshold.

34. In response, the authorities committed to limit the pace of external borrowing. In FY2016 the government signed US$150 million in new loans, but as no loan was ratified the PC on the debt limit was met. In FY2017 the Legislature ratified new loans for US$155 million, or US$91 million in PV terms, of which US$103 million signed in FY2016. The program envisages the ratification of about additional US$95 million in new loans for FY2017 (including the remainder of the loans signed in FY2016) for a total US$250 million or US$136 million in PV terms. The total ratification envelope for FY2016-FY2017 of US$136 million in PV terms is thus lower than projected at the time of the fourth review, consistent with the smaller borrowing envelope needed to keep the risk of debt distress at moderate. Text Table 3 shows the summary of the external borrowing program. Text Table 4 shows new external debts by type of interest and by currency.

Text Table 3. Summary Table of Projected External Borrowing Program
(July 1, 2016 to June 30, 2017)

PPG external debt	Volume of new debt in FY2017		PV of new debt in FY2017 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**250**	**100**	**136**	**100**
Concessional debt, of which	**198**	**79**	**99**	**73**
Multilateral debt	181	72	88	65
Bilateral debt	17	7	11	8
Other	0	0	0	0
Non-concessional debt, of which	**52**	**21**	**37**	**27**
Semi-concessional	52	21	37	27
Commercial terms	0	0	0	0
By creditor type	**250**	**100**	**136**	**100**
Multilateral	181	72	88	65
Bilateral - Paris Club	0	0	0	0
Bilateral - Non-Paris Club	69	28	48	35
Other	0	0	0	0
Uses of debt financing	**250**	**100**	**136**	**100**
Infrastructure	211	84	119	87
Social spending	39	16	17	13
Budget financing	0	0	0	0
Other	0	0	0	0
Memo items				
Indicative projections				
Year 2	**74**		**34**	
Year 3	**71**		**39**	

Source: Liberian authorities; and IMF staff calculation.

Text Table 4. Type of New External Debt
(July 1, 2016 to June 30, 2017, Millions of U.S. dollars)

By the type of interest rate	
Fixed interest rate	250
Variable interest rate	0
Unconventional loans	0
By currency	
USD denominated loans	33
Loans denominated in other currency	217

Source: Liberian authorities; and IMF staff calculation.

35. Liberia is making progress with regional and multilateral trade agreements. Liberia became a WTO member in July 2016. As part of the ECOWAS Trade Liberalization Scheme (ETLS), the government is working on implementing the Common External Tariff (CET), which was approved by the legislature in September, 2016. Migration to the CET is to take place starting in January 2017.

PROGRAM ISSUES, MONITORING, AND RISKS

36. Completing the fifth and sixth reviews is conditional on two prior actions. The authorities committed to (i) complete the development of a database to cover all domestically financed projects and (ii) provide an interim report of the forensic audit conducted by KPMG.

37. The authorities are requesting waivers for the nonobservance of program targets:

- **Missed PC on government revenue for end-December 2015 and end-June 2016**: the revenue shortfall was mainly driven by the commodity price shock, particularly the fall of iron ore price. The authorities put in place strong corrective actions: (i) a package of revenue measure for the FY2017 budget and additional measures introduced in November 2016 for an annualized total of US$63 million, and (ii) ongoing revenue administration reforms to improve tax compliance and capacity of the LRA, with close support by the Fund and other donors.

- **Missed PC on the CBL's net foreign exchange position for end-December 2015 and end-June 2016**: the deviation from program targets were due to policy weaknesses, notably the support to FIBLL, but also the impact of the external shock. The CBL has taken corrective actions consisting in: (i) implementation of the three-year financial plan; (ii) limited market interventions in the first half of 2016 to achieve a net foreign exchange position target agreed with staff; and (iii) closure of FIBLL in June 2016.

- **Missed PC on the CBL's gross credit to the government for end-June 2016**: the waiver would be justified by the minor deviation from the program target.

38. The requested augmentation of access would contribute to fill the balance of payments financing needs in 2016–17. In 2016, the first installment of the augmentation of US$18 million, directed to budget support, together with the additional budget financing, including from the Crisis Response Window of the World Bank, would help close the US$38 million balance of payment gap. The Fund's disbursement would be channeled to budget support, alleviating the burden of fiscal consolidation. Supporting the government could catalyze other donor support, especially for the elections. A Memorandum of Understanding between the MFDP and the CBL would structure the on-lending of this installment to the budget. In 2017, the remaining two installments of the augmentation for US$21 million, together with additional election assistance from other donors for US$7 million, would close the balance of payments gap created by the worsening of export performance.

39. The extension would allow the completion and deepening of the economic program supported by the ECF and provide an anchor to maintain macroeconomic stability in the pre-election period.

- ***Fiscal policies***: the main focus would be on the execution of the FY2017 budget and the preparation of the FY2018 budget, to be submitted to the Legislature in April 2017. The extension further allows the completion of PFM reform envisaged under the program, including the missed SB on spending and procurement plans for FY2017, the formalization of social contribution deferral agreements with the concession companies, and the monitoring of SOEs.

- ***Monetary and exchange rate***: the program would help the CBL continue accumulating foreign exchange buffers to stabilize the exchange rate, if needed, support the improvement of the net foreign exchange position through the continued implementation of the three-year budget, and advance the MFDP-CBL coordination on liquidity management and foreign exchange interventions. In addition, the extension accommodates strengthening of CBL financial performance and governance reform through a new structural benchmark on the establishment of an ALCO.

- ***Financial sector***: the extension would allow staff to continue monitoring the implementation of the measures related to the resolution of FIBLL, including the conclusion and publication of the forensic audit, and give the CBL time to push ahead with the regulations on ELA, the Special Resolution Regime (SRR), and deposit insurance.

- ***Performance during the period up to November 2017*** would be monitored by performance criteria and indicative targets and structural benchmarks.

40. The November 2015 update safeguards assessment confirmed a weak governance and control environment at the CBL. The assessment's key concerns are being addressed by program measures. In addition to the forensic audit, these include strengthening the CBL's investment policies, the approval of its financial plan (prior action for the fourth review), and the establishment of an ELA framework (*structural benchmark*). Remaining recommendations include legal amendments to align the CBL Act with best practices, strengthening the internal audit function, and enhancing audit and control oversight.

41. Liberia's capacity to repay the Fund is adequate. Total outstanding Fund credit currently amounts to 44.8 percent of quota. Although the risk of debt distress has increased from low to moderate, the debt level remains relatively low. Grants under the CCR Trust have allowed prepayment of Liberia's debt service obligations to the Fund until late 2018.

42. Program risks are high:

- **Economy**: Further deterioration of the economy and slow recovery of commodity prices could directly affect government revenues.

- **Fiscal**: Spending pressures from the upcoming elections combined with revenue shortfall could lead to unsustainable external borrowing (pushing the risk of debt distress to high) or to an accumulation of arrears. Slow progress of PFM reforms could negatively affect fiscal and development policies and discourage support from the international community.

- **Monetary, exchange rate, and financial system**: Higher-than-programmed CBL foreign interventions to mitigate depreciation pressure could undermine reserve accumulation. Delay in the resolution of FIBLL, including the forensic audit, would hamper efforts to strengthen the CBL's capacity to supervise the financial system.

STAFF APPRAISAL

43. The authorities should be commended for maintaining macroeconomic stability in a difficult economic situation. The economy has not yet recovered after the Ebola epidemic. It is becoming apparent that the impact of the commodity price shock and, to a lesser extent, the UNMIL withdrawal is deeper than anticipated, with negative implications for government revenues which exacerbate the developmental trade-offs faced by the authorities.

44. The authorities' request for an extension sends a strong positive signal. The intention to complete the economic program under the ECF and maintain sound policies, including fiscal discipline, is particularly welcome given that the country is entering the thick of the pre-electoral period.

45. Program performance is mixed. In part, this reflects the challenging economic situation. However, deviations from the program targets are also a result of policy choices, notably with regard to the impact of bail-out of FIBLL on the CBL's foreign exchange position. Delays in structural reform are attributable to limited capacity but also to weak prioritization of reform efforts, partly caused by the transitions at the helm of the MFDP and CBL.

46. Risks are high. While medium-term prospects are still favorable, the economy is vulnerable to a possible re-emergence of the EVD, a worsening of security in the run-up to the elections, and persistence of adverse economic effects of the commodity price shock.

47. The policy reaction to the shocks is appropriate. The authorities took prompt action to address fiscal pressures from the commodity price shock and the increase in election-related spending, on top of existing needs for health spending and the handover of security from UNMIL. Revenue and spending measures in the fiscal package for the FY2017 fiscal year are overall well-balanced.

48. Consolidation efforts should continue in the coming years. In the future, the government should further rationalize spending, particularly current items such as the wage bill and transfers, and deepen the domestic revenue mobilization effort, notably with the launch of the VAT, to compensate for the volatility and likely decrease of external assistance.

49. The government should also accelerate structural fiscal reform. While the authorities have made good progress on tax policy and administration, public financial management reform has lagged. The authorities should particularly focus on the TSA, investment management, SOE monitoring, and procurement and budgetary processes.

50. Rebuilding external buffers must remain a priority, particularly in the run-up to the elections. Adequate CBL reserves are key to preserving its capacity to intervene in the foreign exchange market and act as lender of last resort. To this end, the central bank should rigorously implement the three-year financial plan and limit interventions to smoothing excessive exchange rate volatility, while allowing the exchange rate to adjust to economic fundamentals. The CBL should also refrain from resuming past practices of direct interventions in the economy.

51. MFDP-CBL-LRA coordination is essential to manage liquidity volatility and contain inflation. The exercise should be supported by stronger analysis, including of government revenue and spending currency composition and external inflows, particularly foreign aid. The tightening of liquidity through the issuance of Liberian dollar bond is appropriate in light of the acceleration of inflation.

52. The FIBLL episode drained CBL's reserves and weakened its credibility. The financial support to FIBLL went well beyond the extension of liquidity to a commercial bank in temporary difficulty, in effect morphing into a full blown bail-out in the absence of an ELA framework, an SRR mechanism, or deposit insurance scheme. The exposure to FIBLL also weakened the CBL's international reserve position. Furthermore, the lack of transparency in the CBL's financial support to FIBLL and its initial resolution attempts have weakened its credibility.

53. The closure of FIBLL and the implementation of related measures are welcome. The authorities' decision to commission a forensic audit of FIBLL and its supervision by the CBL, and publish its findings are an important sign of their renewed commitment to improve transparency, accountability, and governance of the central bank. The CBL should also work to put in place the frameworks for emergency liquidity, bank resolution, and deposit insurance. An ALCO would be an effective instrument to maintain the CBL's balance sheet under control.

54. Reducing NPLs would support the recovery of credit to the private sector. The CBL's renewed efforts to reduce the stock of legacy NPLs are welcome. While the name-and-shame approach may bring fruit, NPL write-offs should be more appropriately achieved through the enforcement of existing prudential regulations.

55. Tighter borrowing space requires prioritization of investment. The authorities are respecting the debt limits under the new debt limit policy, and are committed to continue pursuing a prudent borrowing strategy. Improvement of project assessment and monitoring, and stronger debt management along the lines laid out in the 2016 Article IV would strengthen Liberia's debt strategy and management, facilitate the prioritization of debt-financed investment projects, and improve their effectiveness.

56. On the basis of the strength of the authorities' policy commitments and corrective measures, staff supports the completion of the fifth and sixth reviews and the authorities' requests for waivers of non-observance of performance criteria, augmentation of ECF access, and extension of the ECF arrangement.

Table 1. Liberia: Selected Economic and Financial Indicators, 2014–21

	2014	2015	2016	2017	2018	2019	2020	2021
	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change)							
Real sector								
Real GDP	0.7	0.0	-0.5	3.2	5.2	5.7	6.0	6.6
Agriculture & fisheries	-3.7	0.7	6.4	4.1	4.2	4.1	4.2	4.1
Forestry	2.2	2.0	-7.0	3.0	6.0	6.0	6.0	7.0
Mining & panning	3.3	-15.9	-23.8	5.5	8.9	11.9	19.6	25.6
Manufacturing	-0.7	-1.5	-4.9	0.0	4.0	5.6	4.7	4.0
Services	2.3	4.3	3.9	2.9	5.1	5.4	4.4	3.8
Real GDP excluding mining sector	0.3	2.6	2.6	3.0	4.9	5.1	4.5	4.2
Nominal non-mining per capita GDP (U.S. dollars)	438	452	463	477	511	553	597	620
Nominal GDP (millions of U.S. dollars)	2012	2034	2112	2224	2427	2685	2993	3226
Inflation								
Consumer prices (annual average)	9.9	7.7	8.7	9.7	8.1	7.5	7.1	7.5
Consumer prices (end of period)	7.7	8.0	11.3	8.2	8.0	7.0	7.3	7.6
Population (millions)	4.2	4.3	4.4	4.5	4.6	4.7	4.8	4.9
	(Percent of GDP, fiscal year)							
Central government operations[1]								
Total revenue and grants	27.4	32.5	31.4	30.9	27.6	27.0	27.6	28.2
Total revenue	23.5	22.5	21.8	22.8	23.1	24.0	24.7	25.4
Grants, including Ebola-related support	3.9	10.0	9.6	8.1	4.5	3.0	2.9	2.8
Total expenditure and net lending	29.3	40.9	35.6	39.4	33.6	31.5	31.0	31.4
Current expenditure	24.3	32.0	27.8	28.9	26.4	24.1	23.3	22.7
Capital expenditure	5.0	8.8	7.8	10.5	7.2	7.4	7.7	8.7
Overall fiscal balance, including grants	-1.9	-8.4	-4.2	-8.5	-6.0	-4.5	-3.4	-3.2
Overall fiscal balance, excluding grants	-5.8	-18.4	-13.8	-16.6	-10.5	-7.5	-6.3	-6.0
Public external debt	13.2	23.0	28.0	33.6	37.4	38.1	37.5	36.8
Central government domestic debt	14.1	14.6	12.9	16.8	16.1	11.4	9.7	8.6
	(Percent, unless otherwise indicated)							
M2/GDP	34.6	34.8	33.6	33.4	32.7	32.2	31.6	31.2
Credit to private sector (percent of GDP)	18.8	20.1	21.1	21.6	21.8	22.0	22.4	23.5
Credit to private sector (annual percent change)	5.6	8.1	9.0	7.6	10.2	11.7	13.7	13.1
	(Percent of GDP, unless otherwise indicated)							
External sector								
Current account balance								
including grants	-26.9	-32.2	-31.8	-28.2	-24.4	-23.4	-22.7	-22.5
excluding grants	-89.5	-87.4	-77.6	-54.6	-49.6	-46.5	-43.7	-40.2
Trade balance	-31.7	-44.8	-41.6	-34.5	-29.3	-29.5	-24.2	-22.0
Exports	22.6	12.5	11.6	10.6	11.0	11.2	11.8	13.0
Imports	-54.3	-57.2	-53.2	-45.1	-40.3	-40.7	-36.0	-34.9
Grants (donor transfers, net)	62.6	55.2	47.7	27.0	25.2	23.1	21.0	17.7
Gross official reserves (millions of U.S. dollars)	411	446	469	501	528	566	566	626
Months of imports of goods and services[2]	2.5	2.6	2.9	3.2	3.2	3.3	3.2	3.3
CBL's net foreign exchange position[3] (millions of U.S. dollars)	179	164	181	192	219	272	382	442
Terms of Trade (annual percent change)	-10.7	-26.4	5.6	-14.3	-12.3	1.2	1.0	1.1
Memorandum								
Terms of trade (annual percent change)	-10.7	-26.4						
Iron ore price (US$ per metric ton)	97	55	54	48	43	36	36	36
Gold (US$ per troy ounce)	1,266	1,160	1,282	1,357	1,374	1,391	1,404	1,427
Rubber (US cents per pound)	89	71	71	73	72	72	72	72

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

[1] Including selected off-budget items, such as Mt. Coffee project and Ebola-related activities. Fiscal data and projections refer to fiscal year (July - June).

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

[3] Net foreign exchange position is evaluated at the program exchange rates, instead of the current market exchange rates, and therefore, valuation

Table 2. Liberia: Balance of Payments, 2014–18

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

	2014	2015	2016		2017		2018
	Est.	Est.	Article IV	Proj.	Article IV	Proj.	Proj.
Trade balance[1]	-638	-911	-879	-878	-781	-767	-711
Exports, f.o.b.	454	254	266	245	278	236	266
of which: Iron ore	246	103	70	61	55	55	48
of which: Gold	18	42	87	77	122	93	113
Imports, f.o.b	-1,092	-1,165	-1,145	-1,123	-1,060	-1,003	-978
Services (net)	-1,008	-921	-869	-884	-564	-545	-569
Income (net)	-347	-284	-240	-250	-256	-276	-307
of which: Compensation of employees	-103	-58	-21	-19	-22	-19	-20
of which: Public interest payments due	-2	-3	-4	-4	-5	-5	-6
Current transfers	1,451	1,462	1,320	1,340	967	961	995
of which: Ebola-related grants	56	90	82	82	0	0	0
Current account balance	-541	-654	-668	-672	-634	-626	-592
Current account balance, excluding grants	-1,801	-1,777	-1,638	-1,640	-1,238	-1,213	-1,203
Capital and financial account (net)	503	595	669	636	685	630	623
Capital account	117	69	61	61	60	60	61
Financial account	386	527	607	575	625	570	562
Foreign direct investment (net)	276	257	258	250	271	259	322
Portfolio investment (net)	0	0	0	0	0	0	0
Other investment (net)	111	270	349	325	354	311	240
Official financing: medium and long term (net)	91	119	120	99	139	126	120
of which: Ebola-related loans	0	48	29	28	0	0	0
Private financing (net)[2]	20	151	229	226	215	185	120
Overall balance	-38	-59	0	-36	51	4	30
Financing	38	59	0	-3	-51	-32	-30
Change in gross official reserves (increase -)[3]	-18	-34	-12	-23	-51	-32	-27
Net use of IMF credit and loans	56	57	11	21	0	0	-3
Donor financing	0	0	0	0	0	0	0
Exceptional financing	0	36	0	0	0	0	0
Financing gap (- deficit / + surplus)	0	0	0	-38	0	-28	0
Proposed IMF ECF augmentation/extension				18	0	21	
World Bank				20		0	
Election support						7	
Unidentified financing sources						0	
Memorandum items:							
Current account balance (percent of GDP)							
Including grants	-26.9	-32.2	-31.3	-31.8	-27.7	-28.2	-24.4
Excluding grants	-89.5	-87.4	-76.6	-77.6	-54.1	-54.6	-49.6
Trade balance (percent of GDP)	-31.7	-44.8	-41.1	-41.6	-34.1	-34.5	-29.3
Donor transfers (net, percent of GDP)	62.6	55.2	45.3	47.7	26.4	27.0	25.2
Foreign direct investment (net, percent of GDP)	13.7	12.6	12.1	11.8	11.8	11.6	13.3
Public sector external debt (medium and long term, percent of GDP)[4]	13.2	23.0	28.2	28.0	32.3	33.6	37.4
Gross official reserves	411	446	457	469	509	501	528
Gross official reserves (months of imports)[5]	2.5	2.6	2.7	2.9	3.0	3.2	3.2

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

[1] The central bank is currently revising BOP statistics using the custom-based trade data, which would have better data coverage, 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, 2014–18[1/]

(Millions of U.S. dollars)

	FY2014	FY2015	FY2016		FY2017		FY2018
	Est.	Est.	Article IV	Est.[7]	Article IV	Proj.	Proj.
Total revenue and grants	549	646	670	652	674	675	642
Revenue	471	447	427	453	526	498	538
Tax revenue	386	369	381	402	419	402	441
Non-tax	86	78	45	51	107	96	97
Grants	78	199	244	199	149	177	104
of which: Budget support	36	60	60	68	30	50	31
of which: Ebola-related grants	0	137	97	91	0	6	0
Expenditure and net lending	588	814	817	739	826	860	781
of which: Off-budget expenditure	73	212	273	195	283	284	227
Current expenditure	488	638	592	576	609	631	614
Wages and salaries	200	255	264	257	259	258	263
of which: Ebola-related, off-budget		15	12	7	3	3	2
Goods and services [2]	163	259	221	219	231	244	186
of which: Ebola-related, off-budget		39	31	28	3	8	7
Subsides and transfers	119	115	97	91	106	116	128
of which: Ebola-related, off-budget		9					
Interest	5	10	11	9	13	13	37
Capital expenditure	100	176	224	162	216	229	168
of which: Mount Coffee	61	47	87	56	66	84	20
Foreign loan financed	39	72	64	60	95	83	84
Foreign grant financed	41	50	101	44	83	92	40
Domestically financed	20	54	59	59	38	54	43
Overall balance							
Including grants	-39	-167	-146	-87	-151	-185	-140
Non-Ebola balance		-206	-172	-142	-145	-176	-126
Central government budget balance	-7	-104	-57	-23	13	-27	14
Excluding grants	-117	-366	-390	-286	-300	-362	-244
Identified financing	39	167	146	87	151	147	140
External financing (net)	44	114	117	112	131	113	118
Loans	49	119	121	113	136	119	120
of which: Budget support	10	53	28	28	20	0	0
of which: Ebola-related loans	0	48	33	28	0	0	0
Amortization (-)	-5	-5	-4	-1	-5	-5	-2
Domestic financing (net)	-5	53	30	-25	21	34	22
Central Bank of Liberia	-30	40	33	7	7	-53	1
Use of deposits	-22	-53	33	7	7	-53	14
Gross borrowing	4	99	0	0	0	0	0
Amortization	-12	-5	0	0	0	0	-13
Deposit money banks	18	13	-2	-28	14	87	23
Treasury bill purchases (net)	5	19	0	-21	0	64	0
Other lending to government (net)	12	-6	-2	-7	14	23	23
Other (including repayment of arrears)	8	0	-1	-4	0	0	-2
Financing gap (- deficit / + surplus)	0	0	0	0	0	-38	0
Proposed IMF ECF augmentation						18	
World Bank						20	
Memorandum items:							
Iron-ore related revenue [3]	29	22	8	7	10	8	12
Total public external debt [4]	264	458	588	580	721	734	869
Central government domestic debt [5]	303	291	271	268	269	366	374
of which: foreign currency denominated	283	271	261	258	259	357	365
Basic balance [6]	61	9	78	75	65	44	28
Current balance	-16	-191	-166	-123	-84	-133	-76
Primary balance, including grants	-34	-158	-136	-78	-139	-172	-103
Total aid disbursement[8]	474	712		737		742	405
Fiscal year nominal GDP	2,005	1,991	2,086	2,073	2229	2,183	2,326

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

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

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

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

[4] Includes debt to IMF.

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

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

[7] Including end-FY2016 expenditure float.

[8] Total aid disbursement includes all the official grants and loans based on the new Aid Management Database. Since "Grants" covers only selected items, this item exceeds sum of "Grants" and "External loans".

Table 3b. Liberia: Fiscal Operations of the Central Government, 2014–18[1/]

(Percent of GDP, unless otherwise indicated)

	FY2014	FY2015	FY2016		FY2017		FY2018
	Est.	Est.	Article IV	Est.[7]	Article IV	Proj.	Proj.
Total revenue and grants	27.4	32.5	32.1	31.4	30.3	30.9	27.6
Revenue	23.5	22.5	20.5	21.8	23.6	22.8	23.1
Tax revenue	19.2	18.6	18.3	19.4	18.8	18.4	18.9
Non-tax	4.3	3.9	2.2	2.5	4.8	4.4	4.2
Grants	3.9	10.0	11.7	9.6	6.7	8.1	4.5
of which: Budget support	1.8	3.0	2.9	3.3	1.4	2.3	1.3
of which: Ebola-related grants	0.0	6.9	4.7	4.4	0.0	0.3	0.0
Expenditure and net lending[2]	29.3	40.9	39.2	35.6	37.0	39.4	33.6
of which: Off-budget expenditure	3.7	10.7	13.1	9.4	12.7	13.0	9.8
Current expenditure	24.3	32.0	28.4	27.8	27.3	28.9	26.4
Wages and salaries	10.0	12.8	12.7	12.4	11.6	11.8	11.3
of which: Ebola-related, off-budget		0.8	0.6	0.3			
Goods and services[2]	8.1	13.0	10.6	10.5	10.4	11.2	8.0
of which: Ebola-related, off-budget		2.0	1.5	1.3			
Subsides and transfers	5.9	5.8	4.6	4.4	4.8	5.3	5.5
of which: Ebola-related, off-budget		0.4					
Interest	0.3	0.5	0.5	0.5	0.6	0.6	1.6
Capital expenditure	5.0	8.8	10.8	7.8	9.7	10.5	7.2
of which: Mount Coffee	3.0	2.3	4.2	2.7	3.0	3.9	0.8
Foreign loans financed	1.9	3.6	3.1	2.9	4.3	3.8	3.6
Foreign grant financed	2.1	2.5	4.8	2.1	3.7	4.2	1.7
Domestically financed	1.0	2.7	2.8	2.8	1.7	2.5	1.9
Overall balance							
Including grants	-1.9	-8.4	-7.0	-4.2	-6.8	-8.5	-6.0
Non-Ebola balance		-10.3	-8.3	-6.9	-6.5	-8.1	-5.4
Central government budget balance	-0.3	-5.2	-2.7	-1.1	0.6	-1.2	0.6
Excluding grants	-5.8	-18.4	-18.7	-13.8	-13.5	-16.6	-10.5
Identified financing	1.9	8.4	7.0	4.2	6.8	6.7	6.0
External financing (net)	2.2	5.7	5.6	5.4	5.9	5.2	5.1
Loans	2.4	6.0	5.8	5.5	6.1	5.4	5.2
of which: Budget support	0.5	2.6	1.3	1.3	0.9	0.0	0.0
of which: Ebola-related loans	0.0	2.4	1.6	1.3	0.0	0.0	0.0
Amortization (-)	-0.3	-0.2	-0.2	-0.1	-0.2	-0.3	-0.1
Domestic financing (net)	-0.2	2.7	1.4	-1.2	0.9	1.6	0.9
Central Bank of Liberia	-1.5	2.0	1.6	0.4	0.3	-2.4	0.0
Use of deposits	-1.1	-2.7	1.6	0.4	0.3	-2.4	0.6
Gross borrowing	0.2	4.9	0.0	0.0	0.0	0.0	0.0
Amortization	-0.6	-0.3	0.0	0.0	0.0	0.0	-0.6
Deposit money banks	0.9	0.7	-0.1	-1.3	0.6	4.0	1.0
Treasury bill purchases (net)	0.3	1.0	0.0	-1.0	0.0	2.9	0.0
Other lending to government (net)	0.6	-0.3	-0.1	-0.3	0.6	1.1	1.0
Other (including repayment of arrears)	0.4	0.0	0.0	-0.2	0.0	0.0	-0.1
Financing gap (- deficit / + surplus)	0.0	0.0	0.0	0.0	0.0	-1.7	0.0
Proposed IMF ECF augmentation						0.8	
World Bank DPO						0.9	
Memorandum items:							
Iron-ore related revenue[3]	1.5	1.1	0.4	0.3	0.4	0.4	0.5
Total public external debt[4]	13.2	23.0	28.2	28.0	32.3	33.6	37.4
Central government domestic debt[5]	15.1	14.6	13.0	12.9	12.1	16.8	16.1
of which: foreign currency denominated	14.1	13.6	12.5	12.4	11.6	16.4	15.7
Basic balance[6]	3.1	0.4	3.7	3.6	2.9	2.0	1.2
Current balance	-0.8	-9.6	-7.9	-6.0	-3.8	-6.1	-3.3
Primary balance, including grants	-1.7	-7.9	-6.5	-3.8	-6.2	-7.9	-4.4
Total aid disbursement[8]	23.6	35.8	0.0	35.6	0.0	34.0	17.4
Fiscal year nominal GDP (mil. of U.S. dollars)	2,005	1,991	2,086	2,073	2,228.6	2,183	2,326

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

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

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

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

[4] Includes debt to IMF.

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

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

[7] Including end-FY2016 expenditure float.

[8] Total aid disbursement includes all the official grants and loans based on the new Aid Management Database. Since "Grants" covers only selected items, this item exceeds sum of "Grants" and "External loans".

Table 4. Liberia: Monetary Survey, 2014–17
(Millions of U.S. dollars; unless otherwise indicated)

	2014	2015	2016		2017
	Act.	Act.	Article IV	Proj.	Proj.
(Central Bank Survey)					
Net foreign assets	175	189	184	181	194
CBL's gross foreign reserves	514	532	554	567	602
Commercial banks' US$ denominated deposits	102	87	97	98	101
CBL's gross official foreign reserves	411	446	457	469	501
CBL's net foreign exchange position[1]	179	164	189	181	192
Government US$ denominated deposits	91	129	85	100	96
Net domestic assets	-23	-28	-12	-24	-35
Net claims on government	156	87	103	91	80
Claims on other public sector	0	0	0	0	0
Claims on private sector	3	4	4	4	4
Claims on commercial banks	29	28	28	28	28
Other items (net)	-211	-147	-147	-147	-147
Monetary base (M0)	152	161	172	157	159
Monetary base (billions of Liberian dollars)	13	14	16	16	17
(Depository Corporation Survey)					
Net foreign assets	423	383	299	366	380
Net domestic assets	274	326	418	343	362
Net claims on government	186	118	124	122	111
Claims on public enterprises	23	33	43	43	53
Claims on private sector	378	409	451	446	479
Claims on nonbank financial institutions	2	2	2	2	2
Other Items (Net)	-315	-238	-238	-238	-238
Broad money (M2)	697	709	718	709	742
L$ component	186	206	207	205	211
L$ Currency in circulation	101	109	105	104	100
L$ denominated deposits	85	97	102	101	111
US$ component (deposits only)	511	502	510	504	531
Memorandum items:					
Broad money (annual change)	2.1	1.7	1.3	0.1	4.6
L$ component as percent of broad money	-0.6	2.9	0.2	-0.2	0.8
US$ component as percent of broad money	2.7	-1.2	1.1	0.2	3.8
Monetary base (annual change)	-3.3	5.6	7.1	-2.1	1.3
Net credit to government (annual change)	-16.5	-36.7	5.1	3.4	-9.0
Credit to private sector (annual change)	5.6	8.1	10.3	9.0	7.6
Velocity (GDP-to-M2)	2.9	2.9	3.0	3.0	3.0
Money multiplier (M2/M0)	4.6	4.4	4.2	4.5	4.7

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, 2014–16

(Percent)

	2014				2015				2016	
	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Capital adequacy										
Regulatory capital to risk-weighted assets	20.5	21.4	23.6	20.3	23.8	18.0	18.8	15.5	16.2	20.0
Reported net capitalization	14.3	15.2	15.0	12.6	13.1	12.3	13.1	11.8	11.6	13.3
Asset quality										
Non-performing loans to total loans	14.5	15.5	16.3	18.7	18.5	19.2	16.5	15.7	15.7	14.8
Provisions to non-performing loans net of interest in suspense	73.3	57.4	64.4	61.1	62.9	62.5	72.2	73.5	78.6	80.4
Provisions to classified loans net of interest in suspense	52.5	38.9	44.3	51.8	47.7	51.9	56.4	63.6	67.8	66.4
Loan concentration (share of total)										
Agriculture	6.3	5.5	8.2	6.8	7.1	7.7	6.9	7.0	6.9	6.9
Mining and Quarrying	0.5	0.4	0.5	0.6	0.6	0.7	0.6	0.4	0.4	2.0
Manufacturing	1.9	1.9	2.4	1.9	2.2	2.7	2.6	2.6	3.2	3.1
Construction	15.6	15.3	17.1	17.2	16.5	17.5	17.0	14.3	15.2	15.9
Transportation, Storage, and Communication	8.5	8.2	8.3	7.4	7.6	8.6	8.3	8.7	7.4	6.8
Trade, Hotels, and Restaurants	45.2	42.7	41.6	43.8	43.9	42.0	42.5	43.3	41.6	39.0
Services	5.8	5.9	5.6	6.3	6.4	5.6	5.7	5.6	6.9	6.9
Personal	9.6	9.8	10.0	9.7	9.0	9.3	9.2	10.0	11.2	11.8
Government of Liberia	2.1	2.0	2.2	2.2	2.1	2.0	2.8	2.5	2.2	2.0
Public corporations	0.8	0.9	1.0	1.1	1.0	0.9	0.8	0.7	0.7	0.7
Others	3.7	7.2	3.3	2.8	3.5	3.0	3.7	4.7	4.2	4.9
Earnings and profitability										
Return on assets	-0.4	-0.3	-0.5	0.1	-0.6	-1.0	-0.8	-1.0	-2.4	0.6
Return on equity	-2.6	-2.0	-3.4	1.0	-5.2	-8.1	-6.7	-9.0	-18.0	4.5
Non-interest income to total income	48.9	51.5	51.2	51.0	50.9	47.0	52.9	52.4	51.2	52.1
Net interest margin over average assets	2.1	3.4	6.2	7.4	1.5	3.0	5.6	7.6	1.9	3.9
Liquidity										
Liquid assets to deposits and designated liabilities	25.4	41.6	45.9	50.4	44.9	41.8	39.7	36.8	34.7	40.2
Liquid assets to net assets	18.8	26.7	29.5	34.0	16.5	28.7	28.2	26.7	26.4	28.1
Net loans to deposits	51.7	58.4	56.5	50.4	50.8	50.7	54.9	56.8	42.1	58.6

Sources: Liberian authorities; and IMF staff estimates.

Table 6. Liberia: Indicators of Capacity to Repay the Fund, 2016–26

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Projections										
Prospective drawings based on existing and prospective credit	27.7	14.8	-	-	-	-	-	-	-	-	-
ECF[1]	27.7	14.8	-	-	-	-	-	-	-	-	-
RCF[2]											
Charges and interest											
Total obligations based on existing and prospective credit[2]	0.0	0.0	2.1	10.8	20.3	23.2	26.5	27.4	24.4	13.2	8.5
Repayments and repurchases	0.0	0.0	2.1	10.5	20.0	23.0	26.3	27.3	24.4	13.2	8.5
ECF-current	0.0	0.0	2.1	10.5	16.8	16.5	14.3	12.4	9.4	1.5	0.0
ECF-projected	0.0	0.0	0.0	0.0	0.0	0.0	5.5	8.5	8.5	8.5	8.5
RCF-projected	0.0	0.0	0.0	0.0	3.2	6.5	6.5	6.5	6.5	3.2	0.0
Interests	0.0	0.0	0.0	0.3	0.3	0.2	0.2	0.1	0.1	0.0	0.0
ECF-current	0.0	0.0	0.0	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
ECF and RCF-projected	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of											
GDP	0.0	0.0	0.1	0.6	1.0	1.0	1.1	1.0	0.8	0.4	0.2
Gross official reserves	0.0	0.0	0.6	2.7	5.1	5.2	5.5	5.2	4.3	2.2	1.3
Exports of goods and services	0.0	0.0	0.5	2.4	4.2	4.4	4.2	4.0	3.1	1.5	0.9
Fiscal revenue (excluding grants)	0.0	0.0	0.5	2.4	4.1	4.4	4.7	4.5	3.7	1.8	1.1
Outstanding Fund credit[1]	143.4	158.2	156.1	145.6	125.6	102.6	76.3	49.0	24.6	11.4	3.0
In percent of											
GDP	9.5	10.0	9.1	7.7	5.9	4.5	3.0	1.8	0.8	0.3	0.1
Gross official reserves	42.8	44.4	41.6	36.4	31.4	23.2	15.7	9.3	4.3	1.9	0.5
Exports of goods and services	30.9	40.4	37.7	32.9	25.8	19.5	12.2	7.1	3.2	1.3	0.3
Fiscal revenue (excluding grants)	43.4	44.8	39.9	32.6	25.4	19.4	13.4	8.0	3.7	1.6	0.4
Quota[3]	55.5	61.2	60.4	56.4	48.6	39.7	29.5	19.0	9.5	4.4	1.1

Sources: Liberian authorities; and IMF staff estimates.

[1] Including propsed access augmentation.

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

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

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

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

Source: IMF staff estimates.

[1] With respect to previously completed reviews, the date indicated refers to the date of the Executive Board meeting.

[2] In addition to the conditions that normally apply to an ECF arrangement.

Annex I. Risk Assessment Matrix[1]

Sources	Likelihood	Potential Impact	Policies to Minimize Impact
External			
Significant slowdown in China and other large EMs/frontier economies, leading to further weakness in commodity prices.	Medium	Protracted low commodity prices could delay natural resource sector recovery, lowering overall medium-term growth and fiscal revenue.	Accumulate international reserve buffers. Diversify the structure of the economy and export markets. Seek additional financing resources and prioritize expenditure to compensate revenue shortfall.
Reduced financial services by global/regional banks,	High	Lower trade finance, flow of remittances, and humanitarian aid following difficulties in identifying credible counterparties.	Strengthen AML/CFT supervisory framework, address gaps in the AML/CFT legislature including terrorist financing, and improve tax system transparency,
Domestic			
Large scale re-emergence of Ebola disease	Low	Socio-economic recovery process would be delayed, depressing growth and worsening the living standards of vulnerable groups.	Continue efforts to fight the disease, including ensuring continued communities' engagement, and strengthen health and social protection systems.
Deterioration of security conditions after the UNMIL withdrawal	Medium	A security vacuum would undermine investor and consumer confidence and slow down economic activity.	Ensure smooth transition from UNMIL to national security system.
Increasing financial sector vulnerability	Medium	Weak financial sector would drag down development. Additional fiscal costs from support to the banking sector would weigh on fiscal space.	Improve profitability of the banking sector, accelerate the removal of NPLs, and set up a bank resolution framework.

[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
Domestic			
Weak policy implementation	High	Possibly under the stress from a worsening of government revenue, security, and/or health situation, implementation of PFM measures, fiscal discipline, and exchange rate policy may be undermined.	Front-load policy implementation and maintain engagement with the IMF.
Increasing debt distress	High	The worsened macroeconomic outlook, especially key export sectors, and high public investment needs and borrowing pressures could raise risk of debt distress from moderate to high.	Prioritize public projects financed by external loans and seek grant financing instead of loan financing.

Annex II. Debt Sustainability Analysis[1]

This Debt Sustainability Analysis (DSA) updates the analysis presented to the Board in July 2016 as background for the 2016 Article IV Report. Liberia's risk of debt distress remains moderate but debt vulnerabilities have risen. The debt-to-exports and debt-to-GDP ratios have deteriorated compared to the 2016 Article IV, reflecting weaker-than-expected exports and growth outlook.

A. Underlying Assumptions

1. The baseline macroeconomic projections in the near- to-medium-term have deteriorated from July 2016 DSA (Text table 1). The economic recovery has not yet materialized after the commodity price shock and the Ebola epidemic. GDP growth has been revised down to an average of 3.8 percent during 2016-2020, from 4.7 percent in the Article IV. Export growth is slower than previously projected. Projected export growth for 2016-2020 is now down from -2.3 percent to -2.4 percent.

Text Table 1. Underlying DSA assumptions

	2016-2017		2016-2020	
	July 2016 DSA	Current DSA	July 2016 DSA	Current DSA
Real GDP growth (percent)	3.8	1.9	4.7	3.8
GDP deflator (annual percent change)	2.0	2.8	3.0	3.5
Primary deficit (percent of GDP)	6.7	6.2	5.5	4.6
Exports growth (percent)	-9.9	-11.0	-2.3	-2.4

Sources: Liberian authorities; and IMF staff projections

B. External DSA

2. The debt distress risk remains moderate under the baseline scenario. The PV of debt-to-GDP ratio in the baseline scenario is projected to increase from 18 percent in FY2016 to 23 percent in FY2020, and gradually decline thereafter. The commodity price shock has exacerbated the exports outlook. As a result, the PV of debt-to-export ratio is projected to rise from 54 percent in FY2016 and to a peak of 99 percent in FY2019, close to the threshold of 100 percent, despite a back-loading of the projected disbursement schedule to reflect the current slower-than-expected pace of disbursements. This peak of 99 percent in the PV of debt-to-export ratio is higher than previously projected (96 percent in July 2016 DSA), mainly due to lower-than-expected export growth. However, the probability charts do not show a breach of thresholds under the baseline scenario and confirm a moderate risk of debt distress.

3. However, debt vulnerabilities remain high, with some breaches under the extreme shock scenario. Under the extreme shock scenario, both the PV of debt-to-GDP ratio and the PV of debt-to-exports ratio breach their thresholds around FY2018–19. These breaches underline the fact that as a commodity exporter, the Liberian economy continues to be sensitive to the external commodity price shock.

[1] Prepared by Atsushi Oshima and Ippei Shibata.

Text Table 2. Composition of External Debt Stock

	End of September 2016	
	Millions of US dollar	Percent of Total
Total debt stock	**597**	**100**
By creditors		
Multilateral including IMF	565	95
Of which:		
World Bank	239	40
AfDB	63	11
Bilateral	33	5

Sources: Liberian authorities; and IMF staff calculations

4. The authorities agreed with staff's assessment of the moderate risk rating and share staff's concerns about debt vulnerabilities. They underlined Liberia's challenges of strengthening much-needed infrastructure while preserving debt sustainability. To keep the debt distress risk at moderate, they intend to continue prioritizing potential loans, respect the debt limits under the ECF, which they see as a very useful to guide a prudent borrowing behavior, and limit signature of new loans. The composition of external debt stock comprises mostly multilateral loans (Text Table 2). They also plan to prioritize grants and concessional financing and undertake diversification of the economy to be more resilient to external shocks. Nevertheless, they noted that higher investment would increase growth dividends and in turn help debt sustainability.

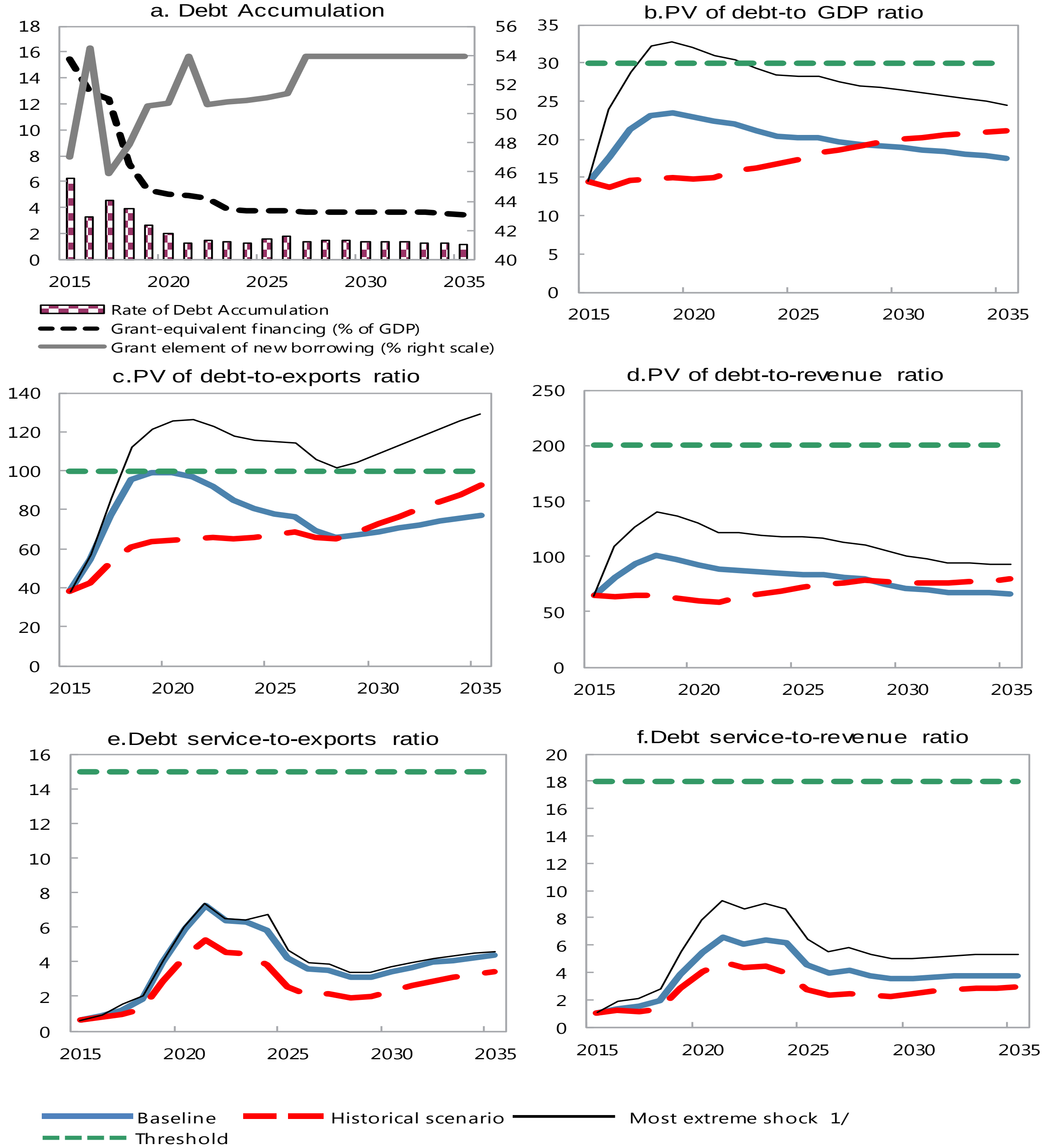
C. Public DSA

5. The public DSA has not significantly changed compared to the July update. Under the baseline and shock scenarios, debt indicators remain below the threshold. The PV of public debt-to-GDP ratio is expected to rise from 18 percent in FY2016 to around 29 percent in FY2018 and slowly decline thereafter. The PV of debt-to-revenue ratio is expected to rise from 81 percent in FY2016 to a peak of 100 percent in FY2018 and slowly fall afterwards. The PV of debt service-to-revenue ratio is expected to reach a peak of 6 percent in FY2020 and decline thereafter.

D. Conclusion

6. Rising debt vulnerabilities call for prudent borrowing policy as well as increased growth and economic diversification. The DSA shows that Liberia's risk of debt distress is still at a moderate level. However, the commodity price shock and the Ebola epidemic, combined with the UNMIL withdrawal, worsened the growth prospects for the economy and the export industries in particular, deteriorating the debt-to-GDP and debt-to-export ratios compared to the previous DSA. The authorities need to continue pursuing a prudent borrowing strategy while focusing on prioritizing more pro-growth projects, and diversifying the economy to make it more resilient to external shocks.

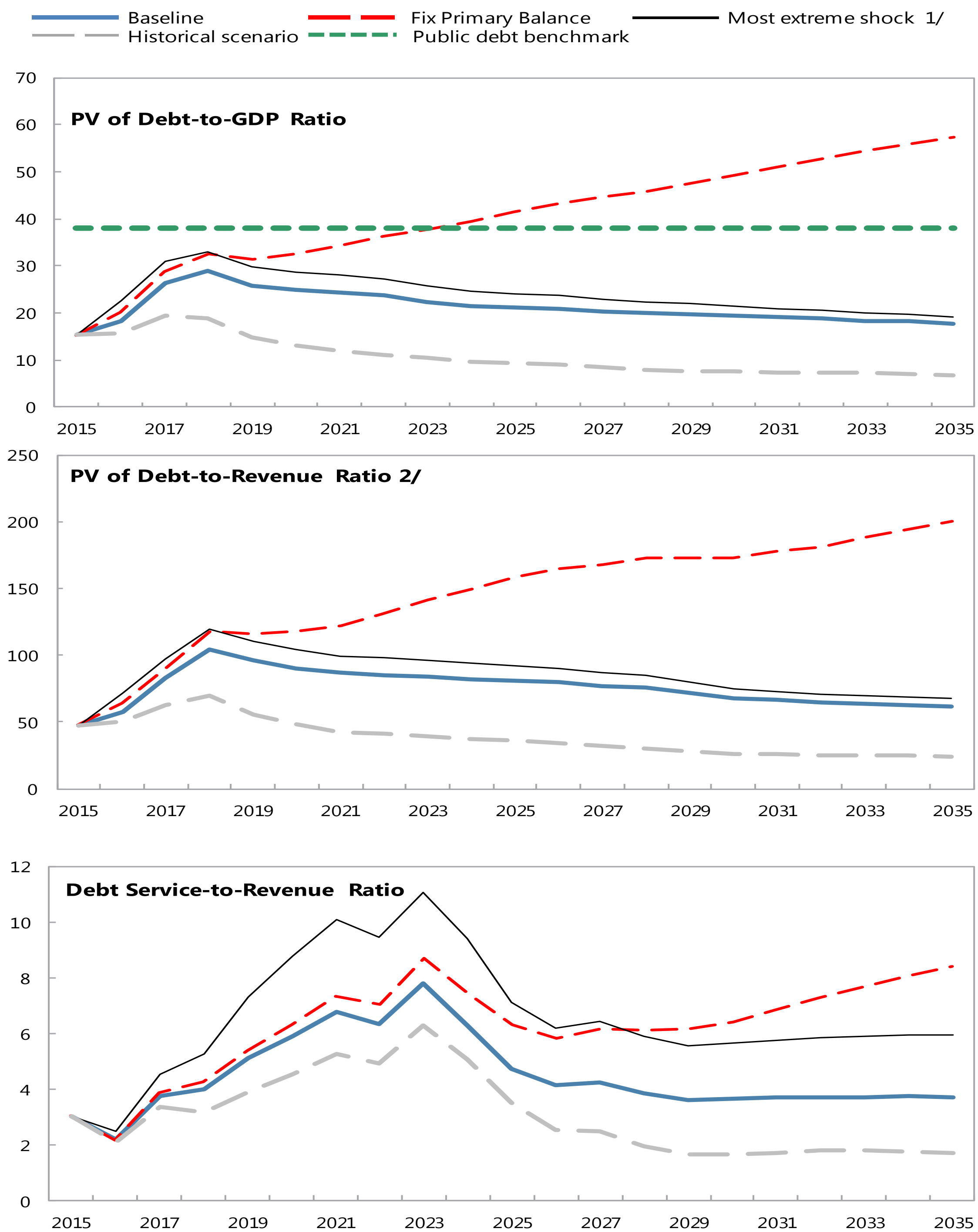
Figure A1. Liberia: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2015–35[1/]



Sources: Country authorities; and staff estimates and projections.

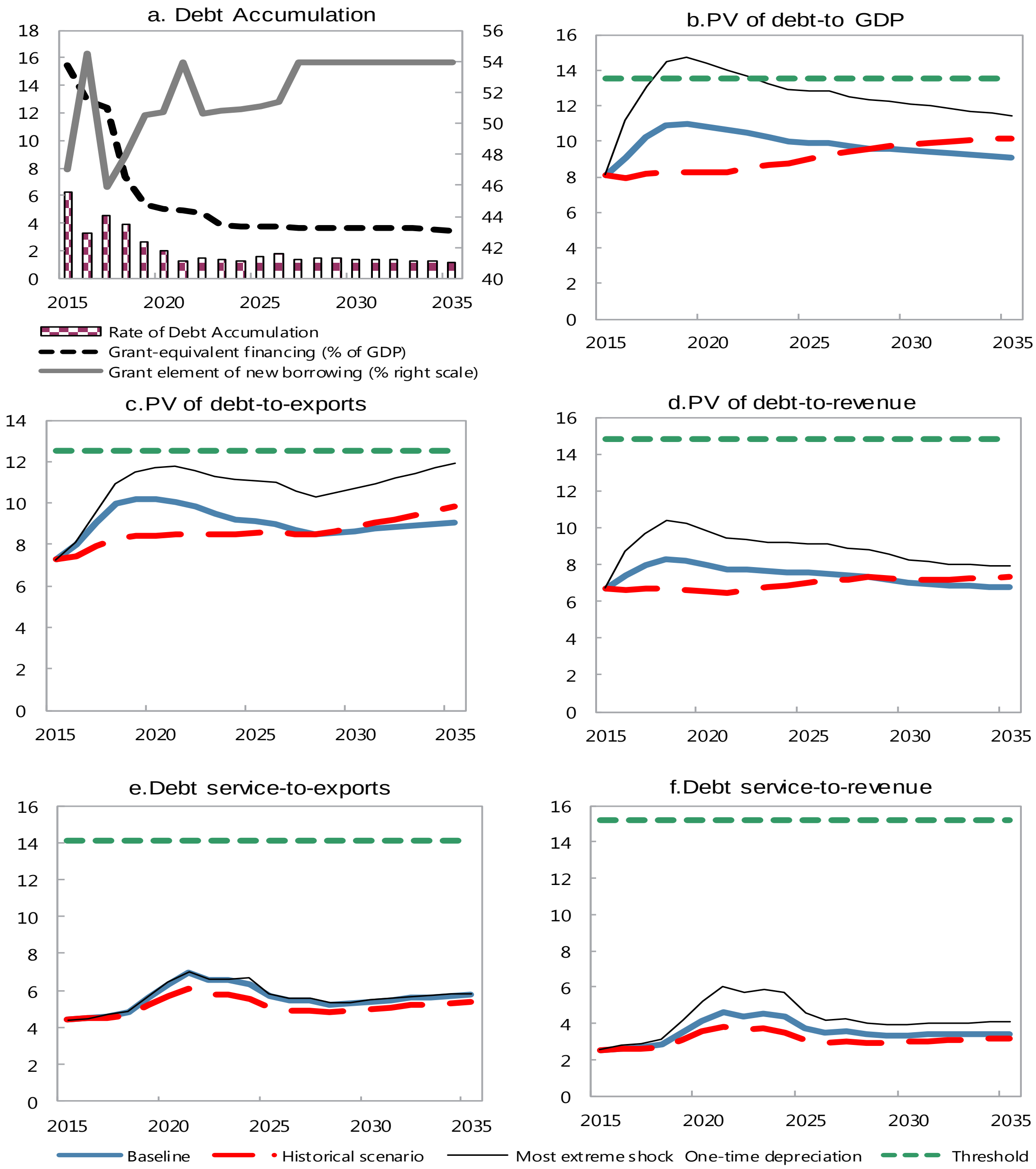
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Non-debt flows shock and in figure f. to a One-time depreciation shock

Figure A2. Liberia: Indicators of Public Debt under Alternative Scenarios, 2015–35[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 2025.
2/ Revenues are defined inclusive of grants.

Figure A3. Liberia: Probability of Debt Distress of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2015–35[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 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Non-debt flows shock and in figure f. to a One-time depreciation shock

Table A1. Liberia: External Debt Sustainability Framework, Baseline Scenario, 2012–35[1/]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical [6/]	Standard [6/]	Projections									
				Average	Deviation							2015-2020			2021-2035
	2012	2013	2014			2015	2016	2017	2018	2019	2020	Average	2025	2035	Average
External debt (nominal) 1/	**9.4**	**10.9**	**13.6**			**23.4**	**29.4**	**35.1**	**38.0**	**38.5**	**37.9**		**35.0**	**31.1**	
of which: public and publicly guaranteed (PPG)	9.4	10.9	13.6			23.4	29.4	35.1	38.0	38.5	37.9		35.0	31.1	
Change in external debt	-2.2	1.5	2.7			9.8	6.0	5.7	3.0	0.4	-0.5		-0.3	-0.5	
Identified net debt-creating flows	-0.2	2.6	7.8			12.7	9.7	7.7	5.8	3.4	2.7		0.1	0.6	
Non-interest current account deficit	**24.3**	**25.9**	**28.1**	**21.3**	**11.6**	**29.9**	**31.3**	**28.9**	**25.8**	**23.6**	**22.7**		**25.1**	**20.6**	24.0
Deficit in balance of goods and services	77.3	66.2	71.9			87.3	86.7	70.4	55.7	52.2	48.2		40.5	29.8	
Exports	48.3	47.5	42.6			38.1	32.5	27.5	24.3	23.7	23.2		25.9	22.9	
Imports	125.6	113.8	114.5			125.4	119.2	97.9	80.1	75.8	71.3		66.4	52.7	
Net current transfers (negative = inflow)	-66.5	-57.4	-61.7	-99.6	38.2	-73.1	-68.1	-53.3	-42.2	-39.5	-36.5		-25.6	-15.0	-22.4
of which: official	-26.7	-25.1	-32.2			-37.6	-32.3	-28.7	-26.1	-24.1	-22.0		-14.2	-8.1	
Other current account flows (negative = net inflow)	13.5	17.1	17.9			15.7	12.7	11.8	12.3	10.9	11.0		10.2	5.7	
Net FDI (negative = inflow)	**-22.8**	**-22.3**	**-19.6**	**-13.7**	**17.2**	**-17.7**	**-21.3**	**-21.1**	**-19.0**	**-18.5**	**-18.3**		**-22.7**	**-18.8**	-21.7
Endogenous debt dynamics 2/	**-1.6**	**-0.9**	**-0.7**			**0.5**	**-0.4**	**-0.2**	**-1.0**	**-1.6**	**-1.7**		**-2.3**	**-1.1**	
Contribution from nominal interest rate	0.0	0.1	0.1			0.1	0.2	0.2	0.2	0.3	0.3		0.3	0.2	
Contribution from real GDP growth	-0.8	-0.7	-0.6			0.4	-0.5	-0.4	-1.2	-1.9	-2.0		-2.6	-1.4	
Contribution from price and exchange rate changes	-0.8	-0.4	-0.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-2.1**	**-1.2**	**-5.1**			**-2.9**	**-3.7**	**-2.0**	**-2.8**	**-3.0**	**-3.3**		**-0.4**	**-1.1**	
of which: exceptional financing	0.0	0.0	0.0			-0.9	-0.9	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	8.1			14.5	17.7	21.2	23.2	23.4	22.9		20.2	17.6	
In percent of exports	...	...	19.0			38.1	54.4	77.2	95.1	98.9	98.8		77.9	76.9	
PV of PPG external debt	**...**	**...**	**8.1**			**14.5**	**17.7**	**21.2**	**23.2**	**23.4**	**22.9**		**20.2**	**17.6**	
In percent of exports	**...**	**...**	**19.0**			**38.1**	**54.4**	**77.2**	**95.1**	**98.9**	**98.8**		**77.9**	**76.9**	
In percent of government revenues	**...**	**...**	**34.4**			**64.6**	**80.9**	**92.9**	**100.2**	**97.3**	**92.6**		**83.8**	**66.0**	
Debt service-to-exports ratio (in percent)	**0.1**	**0.8**	**0.4**			**0.6**	**0.9**	**1.2**	**1.8**	**4.0**	**5.9**		**4.2**	**4.4**	
PPG debt service-to-exports ratio (in percent)	**0.1**	**0.8**	**0.4**			**0.6**	**0.9**	**1.2**	**1.8**	**3.9**	**5.9**		**4.2**	**4.4**	
PPG debt service-to-revenue ratio (in percent)	**0.2**	**1.4**	**0.8**			**1.1**	**1.3**	**1.5**	**1.9**	**3.9**	**5.5**		**4.5**	**3.8**	
Total gross financing need (Millions of U.S. dollars)	24.2	73.5	175.9			248.3	214.0	179.1	168.3	153.3	165.8		153.3	286.9	
Non-interest current account deficit that stabilizes debt ratio	26.5	24.4	25.4			20.1	25.4	23.3	22.8	23.2	23.3		25.4	21.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.9	8.5	5.7	7.1	1.8	-2.8	2.4	1.4	3.7	5.5	5.9	2.7	7.9	4.8	6.8
GDP deflator in US dollar terms (change in percent)	7.6	4.0	2.3	6.3	2.7	2.2	1.6	3.9	2.7	4.2	4.9	3.2	1.1	3.7	2.2
Effective interest rate (percent) 5/	0.1	1.6	0.7	0.4	0.6	0.9	0.7	0.7	0.7	0.8	0.8	0.8	1.0	0.8	0.9
Growth of exports of G&S (US dollar terms, in percent)	26.1	11.1	-3.1	15.0	16.8	-11.3	-11.1	-10.9	-5.6	6.8	8.8	-3.9	11.2	4.7	9.1
Growth of imports of G&S (US dollar terms, in percent)	9.3	2.2	8.8	15.7	24.0	8.8	-1.0	-13.5	-12.8	4.0	4.5	-1.7	5.4	5.0	7.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	47.1	54.5	45.9	47.9	50.6	50.7	49.4	51.1	54.0	53.0
Government revenues (excluding grants, in percent of GDP)	26.2	27.5	23.5			22.5	21.8	22.8	23.1	24.0	24.7		24.1	26.6	25.5
Aid flows (in Millions of US dollars) 7/	28.3	45.7	77.6			199.1	198.6	196.9	104.3	76.0	81.7		88.9	209.7	
of which: Grants	28.3	45.7	77.6			199.1	198.6	196.9	104.3	76.0	81.7		88.9	209.7	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			15.5	12.9	12.3	7.4	5.3	5.1		3.7	3.5	3.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			71.5	82.5	76.0	70.0	69.7	70.4		69.2	73.3	71.5
Memorandum items:															
Nominal GDP (Millions of US dollars)	1643.1	1853.7	2004.5			1991.1	2072.8	2183.0	2325.7	2555.9	2838.6		4446.1	10485.1	
Nominal dollar GDP growth	16.0	12.8	8.1			-0.7	4.1	5.3	6.5	9.9	11.1	6.0	9.1	8.7	9.1
PV of PPG external debt (in Millions of US dollars)			157.3			283.8	348.7	443.8	529.0	590.9	642.2		885.3	1815.6	
(PVt-PVt-1)/GDPt-1 (in percent)						6.3	3.3	4.6	3.9	2.7	2.0	3.8	1.6	1.2	1.4
Gross workers' remittances (Millions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	8.1			14.5	17.7	21.2	23.2	23.4	22.9		20.2	17.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	19.0			38.1	54.4	77.2	95.1	98.9	98.8		77.9	76.9	
Debt service of PPG external debt (in percent of exports + remittance	...	...	0.4			0.6	0.9	1.2	1.8	3.9	5.9		4.2	4.4	

Sources: Country authorities; and staff estimates and projections.

1/ Includes only public. Fiscal year (July 1st to June 30th).

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 A2. Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–35

(Percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2012	2013	2014	Average 6/	Standard Deviation 6/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	11.0	12.4	16.1			24.3	29.9	40.3	43.7	40.9	40.0		36.0	31.3	
of which: foreign-currency denominated	11.0	12.4	16.1			24.3	29.9	37.1	40.9	40.9	40.0		35.9	31.3	
Change in public sector debt	-2.6	1.4	3.8			8.1	5.6	10.4	3.5	-2.8	-0.9		-0.5	-0.6	
Identified debt-creating flows	1.3	0.6	1.0			8.3	4.0	5.8	2.5	0.2	-0.7		-1.3	-1.7	
Primary deficit	3.2	1.4	1.8	0.0	2.1	8.2	4.0	7.1	5.2	3.8	2.9	5.2	1.4	0.6	1.2
Revenue and grants	27.9	29.9	27.4			32.5	31.4	31.8	27.6	27.0	27.6		26.1	28.6	
of which: grants	1.7	2.5	3.9			10.0	9.6	9.0	4.5	3.0	2.9		2.0	2.0	
Primary (noninterest) expenditure	31.2	31.4	29.2			40.7	35.4	38.9	32.8	30.9	30.5		27.5	29.2	
Automatic debt dynamics	-1.9	-0.8	-0.8			0.1	0.0	-1.2	-2.7	-3.6	-3.6		-2.7	-2.3	
Contribution from interest rate/growth differential	-1.2	-0.9	-0.7			0.5	-0.6	-0.4	-1.7	-2.7	-2.6		-3.0	-1.8	
of which: contribution from average real interest rate	-0.2	0.0	0.0			0.0	-0.1	0.0	-0.2	-0.4	-0.3		-0.3	-0.3	
of which: contribution from real GDP growth	-1.0	-0.9	-0.7			0.5	-0.6	-0.4	-1.5	-2.3	-2.3		-2.7	-1.4	
Contribution from real exchange rate depreciation	-0.7	0.1	-0.1			-0.3	0.7	-0.8	-1.0	-0.9	-1.0		...	...	
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 2/	-3.9	0.8	2.8			-0.2	1.6	4.5	0.9	-3.0	-0.3		0.8	1.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	10.6			15.4	18.2	26.4	28.8	25.8	25.0		21.1	17.7	
of which: foreign-currency denominated	...	...	10.6			15.4	18.2	23.3	26.0	25.8	24.9		21.1	17.7	
of which: external	...	...	8.1			14.5	17.7	21.2	23.2	23.4	22.9		20.2	17.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	3.4	2.3	2.1			9.2	4.7	8.2	6.3	5.2	4.5		2.6	1.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	38.8			47.3	57.9	83.0	104.5	95.6	90.4		80.9	61.9	
PV of public sector debt-to-revenue ratio (in percent)	...	...	45.2			68.4	83.3	115.8	124.8	107.5	100.9		87.6	66.6	
of which: external 4/	...	...	34.4			64.6	80.9	92.9	100.2	97.3	92.6		83.8	66.0	
Debt service-to-revenue and grants ratio (in percent) 5/	0.4	3.0	1.1			3.0	2.2	3.7	4.0	5.1	5.9		4.7	3.7	
Debt service-to-revenue ratio (in percent) 5/	0.5	3.2	1.2			4.4	3.1	5.2	4.7	5.7	6.6		5.1	4.0	
Primary deficit that stabilizes the debt-to-GDP ratio	5.8	0.1	-2.0			0.1	-1.6	-3.3	1.7	6.7	3.8		1.9	1.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.9	8.5	5.7	7.1	1.8	-2.8	2.4	1.4	3.7	5.5	5.9	2.7	7.9	4.8	6.8
Average nominal interest rate on forex debt (in percent)	0.2	1.4	1.3	0.6	0.6	1.3	1.0	1.2	1.4	1.4	1.3	1.3	1.1	0.9	1.1
Average real interest rate on domestic debt (in percent)	-5.7	-6.6	...	-5.8	4.4	...	...	714.5	1.8	-2.1	1.7	...	2.3	-0.7	...
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.6	0.7	-0.8	-3.6	4.1	-2.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	8.7	8.0	9.2	9.5	3.5	7.3	9.0	14.1	9.0	7.2	7.3	9.0	4.4	7.0	5.7
Growth of real primary spending (deflated by GDP deflator, in percent)	24.5	9.1	-1.7	3.4	8.0	35.4	-10.8	11.3	-12.5	-0.8	4.7	4.6	8.2	3.8	6.5
Grant element of new external borrowing (in percent)	...	...	...	...	...	47.1	54.5	45.9	47.9	50.6	50.7	49.4	51.1	54.0	...

Sources: Country authorities; and staff estimates and projections.

1/ Central government. Fiscal year (July 1st to June 30th) base.

2/ The government issued two-year T-bonds of L$6 billion in FY2017 for liquidity purpose. Collected money was deposited in the CBL account. These T-bonds are included in public debt, and transactions are captured in "Residual, including asset changes."

3/ 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.

4/ Revenues excluding grants.

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

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

Table A3. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35

(Percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	15	18	21	23	23	23	**20**	18
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	15	14	15	15	15	15	**17**	21
A2. New public sector loans on less favorable terms in 2015-2035 2/	15	18	24	27	29	29	**30**	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	15	16	19	21	22	21	**19**	16
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	15	16	18	21	21	21	**18**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	15	17	20	23	23	23	**20**	17
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	15	22	23	25	26	25	**21**	18
B5. Combination of B1-B4 using one-half standard deviation shocks	15	11	-2	1	2	3	**5**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	15	24	29	32	33	32	**28**	25
PV of debt-to-exports ratio								
Baseline	38	54	77	95	99	99	**78**	77
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	38	42	53	61	63	64	**67**	92
A2. New public sector loans on less favorable terms in 2015-2035 2/	38	57	86	112	121	125	**115**	129
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	38	52	74	93	98	98	**77**	76
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	38	47	59	76	80	81	**64**	66
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	38	52	74	93	98	98	**77**	76
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	38	67	84	104	108	108	**83**	78
B5. Combination of B1-B4 using one-half standard deviation shocks	38	31	-6	3	8	10	**17**	42
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	38	52	74	93	98	98	**77**	76
PV of debt-to-revenue ratio								
Baseline	65	81	93	100	97	93	**84**	66
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	65	63	64	64	62	60	**72**	79
A2. New public sector loans on less favorable terms in 2015-2035 2/	65	84	103	118	119	117	**123**	111
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	65	75	83	92	90	85	**77**	61
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	65	73	79	89	87	84	**77**	63
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	65	76	89	98	96	91	**82**	65
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	65	100	101	110	106	101	**89**	67
B5. Combination of B1-B4 using one-half standard deviation shocks	65	49	-8	3	9	11	**21**	42
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	65	109	126	140	136	130	**117**	92

Table A3. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35 (Concluded)
(Percent)

				Debt service-to-exports ratio				
Baseline	1	1	1	2	4	6	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	1	1	1	1	3	4	**3**	3
A2. New public sector loans on less favorable terms in 2015-2035 2/	1	1	1	3	5	7	**4**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	1	1	1	2	4	6	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	1	1	1	2	3	5	**3**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	1	1	1	2	4	6	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	1	1	2	2	4	6	**5**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	0	2	4	**0**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	1	1	1	2	4	6	**4**	4
				Debt service-to-revenue ratio				
Baseline	1	1	1	2	4	6	**5**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	1	1	1	1	3	4	**3**	3
A2. New public sector loans on less favorable terms in 2015-2035 2/	1	1	1	3	5	7	**4**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	1	1	1	2	4	5	**4**	3
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	1	1	1	2	4	5	**4**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	1	1	1	2	4	5	**5**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	1	1	2	2	4	6	**5**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	0	2	4	**0**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	1	2	2	3	6	8	**6**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	51	51	51	51	51	51	**51**	51

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table A4. Liberia: Sensitivity Analysis for Key Indicators of Public Debt, 2015–35

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	15	18	26	29	26	25	21	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	15	16	19	19	15	13	9	7
A2. Primary balance is unchanged from 2015	15	20	29	33	31	33	41	57
A3. Permanently lower GDP growth 1/	15	18	27	29	27	26	24	27
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	15	17	24	25	22	21	14	7
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	15	17	23	26	23	22	19	17
B3. Combination of B1-B2 using one half standard deviation shocks	15	16	21	22	19	17	11	4
B4. One-time 30 percent real depreciation in 2016	15	24	31	32	28	27	21	16
B5. 10 percent of GDP increase in other debt-creating flows in 2016	15	23	31	33	30	29	24	19
PV of Debt-to-Revenue Ratio 2/								
Baseline	47	58	83	105	96	90	81	62
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	47	51	63	70	56	49	36	24
A2. Primary balance is unchanged from 2015	47	64	91	118	116	118	158	200
A3. Permanently lower GDP growth 1/	47	58	84	106	99	94	92	93
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	47	56	76	93	82	75	55	25
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	47	55	73	94	85	81	73	58
B3. Combination of B1-B2 using one half standard deviation shocks	47	52	66	81	70	63	42	13
B4. One-time 30 percent real depreciation in 2016	47	78	98	117	105	96	80	57
B5. 10 percent of GDP increase in other debt-creating flows in 2016	47	72	97	120	110	104	92	67
Debt Service-to-Revenue Ratio 2/								
Baseline	3	2	4	4	5	6	5	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	3	2	3	3	4	5	3	2
A2. Primary balance is unchanged from 2015	3	2	4	4	5	6	6	8
A3. Permanently lower GDP growth 1/	3	2	4	4	5	6	5	5
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	3	2	4	4	5	5	4	2
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	3	2	4	4	5	6	4	3
B3. Combination of B1-B2 using one half standard deviation shocks	3	2	3	3	4	5	4	2
B4. One-time 30 percent real depreciation in 2016	3	2	4	5	7	9	7	6
B5. 10 percent of GDP increase in other debt-creating flows in 2016	3	2	4	5	5	6	6	4

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Appendix I. Letter of Intent

Monrovia, November 30, 2016

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

Dear Madame Lagarde,

The Liberian economy has experienced two major exogenous shocks, namely the outbreak of the Ebola Virus Disease (EVD) and the decline in global commodity prices, particularly iron ore and rubber. In addition to these shocks, the drawdown of the United Nations Mission in Liberia (UNMIL) that will culminate in December 2016 as well as the forthcoming October 2017 general and presidential elections are presenting further uncertainties that may have economic, political, social, and security implications.

The Ebola epidemic which broke out in March 2014 resulted in the decline of production in all sectors of the economy. It permeated the social and economic fabric of our country, significantly undermining our economic activities and affecting the implementation of our medium-term development program—the Agenda for Transformation (AfT). The epidemic also weakened activities in the economy, resulting in the decline of real GDP growth from close to 8½ percent in 2013 to zero growth in 2014-2016, and put additional expenditure pressure on the government to upgrade the health system as well as increase other social spending for vulnerable populations.

As the country embarked on the road to recovery in 2015 after the devastating Ebola crisis, it had to confront the sharp decline in prices of our two major export commodities— iron ore and rubber. This caused a sharp fall in exports, loss of jobs, and delays in foreign investment, production, and anticipated job creation associated with concession agreements in the iron ore and rubber sectors. The protracted failure of the economy, in particular the natural resource sectors, to rebound after the Ebola crisis is putting strain on the government revenues in the face of spending pressures compounded by the cost of the October 2017 elections and the transfer of security from UNMIL. Export weakness and the economic slowdown has also reduced our debt-carrying capacity. Even though the debt stock is still low, debt sustainability analysis shows the risk of debt distress has moved from low to moderate.

Reflecting the shocks of Ebola and slump in commodity prices, our performance through October 2016 has been uneven. We met all indicative targets (ITs) for end-December 2015 and two out of three ITs for end-June 2016 (the ceiling on net domestic assets of the CBL was missed) set at the time of the fourth ECF review, but missed two performance criteria (PCs) for end December 2015 and three PCs for end-June 2016—the floors on government revenues and net foreign exchange reserves position of the central bank, in addition to the ceiling on CBL's gross direct credit to central government for end-June 2016. The performance criterion on government revenue was missed due to low collection particularly from mining companies. The performance criterion on the net foreign exchange position of the CBL was missed because of liquidity support to the financial sector and lower-than-programmed government sales of foreign exchange to the central bank. Our structural reform agenda is on course, but the pace has been slow due mainly to capacity constraints and the disruption caused by the Ebola epidemic. As a result, the government met two out of nine structural benchmarks for the fifth review and three out of five structural benchmarks for the sixth review. In order to address the deviations from the program, we have implemented corrective actions, namely the introduction of strong revenue measures in the approved FY2016/17 National Budget and the rigorous implementation of the CBL three-year financial plan.

In this extremely difficult situation, we ask for continued and deeper Fund support.

Despite our efforts on increasing revenues and rigorously containing spending, the FY2017 budget is likely to require additional financing. Therefore, we would like to request higher access equivalent to 5 percent of quota (about US$18 million) to enable the country to deal with the balance of payments shock triggered by the commodity price decline and lower export receipts, which is also reflected in a budget financing gap. This additional access would be disbursed at completion of the fifth and sixth reviews. We would also like to request that this funding be channeled to support our FY2017 budget, to help close the funding gap caused by the economic crisis. The Fund's support to the budget would be part of a concerted financing effort by Liberia's partners.

We also request the extension of the ECF until November 18, 2017, and a corresponding additional financing of 5.7 percent of quota (about US$21 million), in order to maintain macroeconomic stability in the run-up to the October 2017 elections and complete the economic program under the ECF, which was delayed by the Ebola epidemics. We will use this additional Fund financing during the extension to support external buffers of the CBL and fill a balance of payment gap triggered by lower exports in 2017.

On the basis of the performance registered in implementing the economic program and on the strength of our future policy commitments, we request that the fifth and sixth reviews under the ECF arrangement be completed and a disbursement in the amount of SDR 14.764 million be approved. In completing the two reviews, the government is requesting the following: (i) waivers for the missed end-December 2015 and end-June 2016 performance criteria on the floor on total revenue collection of the central government (original ratified revenue forecast) and the net foreign exchange position of the CBL based on the corrective actions implemented in the course of 2016, and the missed end-June 2016 performance criterion on gross direct CBL credit to the central government, in light of the small deviation from the program target; (ii) an extension of the ECF supported program to November 18, 2017, with two additional reviews with test dates for end-December 2016 and end-June 2017; and (iii) an augmentation of access equivalent to 10.7 percent of quota, of which 5 percent would be directed to the budget and to be disbursed on the completion of the combined fifth and sixth reviews, and 5.7 percent of quota would be disbursed equally over the seventh and eighth reviews.

Program implementation will continue to be monitored by quantitative performance criteria and structural benchmarks, and semi-annual reviews. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding (TMU). We expect the seventh review to be completed by June 2017 based on end-December 2016 and other relevant performance criteria, and the eighth review to be completed by November 18, 2017 based on end-June 2017 and other relevant performance criteria.

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

Sincerely,

/s/
Hon. Boima S. Kamara
Minister of Finance and Development Planning
Ministry of Finance and Development Planning

/s/
Hon. Milton A. Weeks
Executive Governor
Central Bank of Liberia

Attachment:

I. Supplementary Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Supplementary Memorandum of Economic and Financial Policies

INTRODUCTION

1. On November 19, 2012, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) in support of Liberia's economic reform program. The overall objective of the program is to achieve macroeconomic stability and promote broad-based economic growth through the implementation of sound macroeconomic policies and structural reforms in critical areas. This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and performance under the Extended Credit Facility (ECF) arrangement. It also updates macroeconomic policies and targets for the rest of 2016 and for 2017.

BACKGROUND AND RECENT DEVELOPMENTS

2. The Ebola epidemic has largely been eradicated but its negative effects are still evident in the country. Liberia was finally declared Ebola-free in June, 2016 by the World Health Organization (WHO) after occasional outbreaks following the first declaration in May, 2015. The enhanced capacity of the health sector has enabled the government to very rapidly contain the virus during these outbreaks. In particular, the Incident Management Team (IMS) has been extraordinary in its commitment to containing the outbreak and this has led to international recognition of Liberia's capacity to effectively and efficiently manage the Ebola Virus Disease (EVD) and other outbreaks.

3. The Ebola epidemic resulted in the decline of production in all sectors of the economy. The epidemic weakened activity in the economy with real GDP growth declining from close to 8½ percent in 2013 to zero percent in 2015. This economic disruption which resulted in loss of household incomes and revenue for the government has also put additional expenditure pressure on the government in dealing with the overall health sector as well as increasing other social spending for vulnerable households, especially those directly affected by the epidemic.

4. The commodity price shock is putting additional strain on the country affecting production and employment in the iron ore and rubber sectors. The prices of two of the country's major export commodities—iron ore and rubber—have been depressed since 2015 and are likely to remain below their 2013 levels until at least 2025, according to World Bank projections. The price decline has caused delays in additional foreign investment, production, and anticipated job creation associated with concession agreements in the iron ore, rubber, and other sectors. In 2016, rubber production has stagnated and iron ore production has fallen significantly.

5. The drawdown of UNMIL is also affecting the domestic economy beyond its impact on security. The drastic decline in the presence of UNMIL, a major spender in the local economy, is affecting micro, small, medium, and large enterprises and informal workers, many of whom operate in the service sector catering to the domestic market. Additionally, the drawdown has reduced the inflow of US dollars into the economy, thereby putting pressure on the Liberian dollar. Last, the drawdown will have budgetary implications as the government has to increase spending in the security sector and civil administration in various counties.

6. **The uncertainty deriving from the October 2017 general and presidential elections is negatively affecting private investment**. Due to the risks often associated with political transitions in sub-Saharan Africa, many companies are reluctant to make new investment or scale up their current investment. As a result, almost all projects are on hold at the moment. In addition to the slowdown in investment and economic activity, the upcoming elections will cost about US$53 million, including the cost of security for the elections.

7. **The shocks discussed above have combined to slow economic growth and disrupt the country's development agenda**. The economy is expected to contract in 2016, with growth projected at -0.5 percent, due to falling production in the mining, forestry, and manufacturing sectors. On the positive side, the agricultural sector is projected to grow at 6.4 percent in 2016, against 0.7 percent in 2015. On the inflation front, price pressures are coming to the fore. After averaging at 7.7 percent in 2015, inflation picked up to 9.9 percent in August 2016 due largely to the knock-on-effects of the depreciation of the Liberian dollar especially on core inflation.

8. **The external current account is projected to widen in nominal terms in 2016 due mainly to lower donor grants and exports**. Exports are projected to fall in 2016 relative to 2015 due to lower mining and forestry activity, while imports are also expected to fall thanks to lower Ebola and UNMIL-related imports, lower mining activity, and lower international oil prices. As a result, the current account deficit is projected to widen from US$654 million in 2015 to US$672 million in 2016. Gross international reserves of the Central Bank of Liberia (CBL) have remained stable and are expected to increase marginally from about US$446 million in 2015 to US$469 million in 2016. The CBL net foreign exchange position, however, have recovered from US$164 million in December 2015 to US$178 million in June 2016 following resumption of extra sales from the government, lower than planned interventions, and the rationalization of CBL expenses under the three-year financial plan.

9. **The government's budget has been impacted adversely by the weak economic conditions**. Government domestic revenue for FY2015/16 was US$453 million, US$21 million (1 percentage point of GDP) lower than budgeted. However, when compared to the revised forecast domestic revenue collection exceeded its target by US$37 million. Taking into account the delay in accessing the World Bank's development policy loan of US$20 million, the total resource envelope decreased by US$52 million (2.5 percentage points of GDP) from the budget. However, the government was able to cut its expenditure by US$67 million (3.2 percent of GDP) from the budget, resulting in a budget deficit of US$23 million (on a commitment basis) and an accumulation of deposits of about US$15 million.

10. **In the banking sector, credit growth has recovered but asset quality remains a concern**. Credit to the private sector increased by 16.4 percent year-on-year in June 2016, but high

NPLs continue to weigh on the banks' lending capacity, negatively impacting the pace of recovery. Non-performing loans (NPLs) as a percent of total loans peaked at over 20 percent in 2015 mainly reflecting the slowdown in economic activity but have since declined to 13.5 percent in August 2016.

PERFORMANCE UNDER THE PROGRAM

11. Performance of quantitative indicators under the ECF program through end-December 2015 was mixed. The government met all indicative targets but missed two performance criteria (PCs)—the floors on government revenue and CBL's net foreign exchange position. The PC on government revenue which was based on the original ratified forecast was missed by US$7 million due to low collection from mining companies and stimulus measures implemented by the government to minimize the impact of weak iron ore prices on the mining sector, specifically the deferral of social contributions. The CBL missed the PC on net foreign exchange position of the CBL by US$20 million due to exceptional liquidity support to the financial sector and lower-than-programmed government sales of foreign exchange.

12. The government met three out of the six of the end-June 2016 PCs. The government met the PC on the ratification of external loans by wide margins. The PC on government revenues was missed by US$21 million due to lower revenues from the natural resource sector, and the PC on the net foreign exchange position of the central bank was missed by US$14 million because of an increase in the exposure to FIBLL. The PC on CBL's gross credit to the central government was missed by US$0.5 million. All the indicative targets were met with the exception of net domestic assets (NDA) which was missed by a significant margin of US$20.7 million due to higher-than-expected claims on the private sector.

13. The pace of structural reform for the fifth review has been slow. Out of the nine structural benchmarks (SBs), the government met two (extension of IFMIS coverage and submission of project analyses of new PSIP), and seven were missed:

- Launch a regular donor budget support meeting (end-December 2015): The MFDP launched a regular budget support donor meeting to improve donor inflow projections in early February 2016. In addition, the quarterly project review meetings with World Bank and African Development Bank project managers are now being held regularly.

- Compilation and development of a domestic public investment database (end-March 2016): The PIU is developing an Excel-base database table template. However, collecting necessary information, especially about project progress, takes time. The completion of the database focusing on ongoing domestically financed projects is expected by end-November 2016 (prior action for the fifth and sixth reviews).

- Publish SOEs reports (end-March 2015): The report on FY20/1516 Q1 and Q2 was published with delay on May 19, 2016. The FY2015/16 Q3 and Q4 financial reports have been published on a timely basis.

- Expansion of the existing database of externally-financed projects (end-May 2016): Due to technical issues on the database, the completion of the database development was delayed, and is expected by end-November 2016.

- Finalize the study of the impact of the Ebola forbearance measures (end-December 2015): The study was finalized and submitted to the IMF in February 2016.

- Develop a framework for Emergency Liquidity Assistance (end-March 2016): Work was delayed by focus on FIBLL but the CBL has drafted regulations, which have been shared with the IMF experts.

- Starting with Q1 2016, provide quarterly financial statements with comments on the implementation of the CBL financial strategy. Work on financial statements was delayed by the migration of the CBL accounting system to the T24 software but the Q2 report was submitted on time.

14. Performance against the sixth ECF review improved. Three out of the five structural benchmarks were met, namely: the extension of IFMIS coverage, the submission of the CBL's quarterly financial statements, and publication of the quarterly reports of state owned enterprises (SOE). The end-June 2016 structural benchmark on the submission of spending and procurement plans to the Public Procurement and Concessions Commission was missed. The target proved to be over ambitious due to weak enforcement of the Public Procurement and Concession (PPC) Act at the M&A level.

OBJECTIVES OF ECONOMIC AND FINANCIAL POLICIES FOR 2016–17

The government's Agenda for Transformation will serve as the reference for the 2016–17 economic and financial policies. Its priorities include major public investment projects in infrastructure, agriculture, education, health, and security, and the establishment of an enabling environment for the private sector.

A. The Medium-Term Economic Outlook

15. The macroeconomic outlook remains difficult amid the commodity price shock and domestic headwinds. Economic growth is projected to rebound slightly above 3 percent in 2017 buoyed by a further expansion in commercial gold production and continued growth in the agricultural sector. Over the medium term (2018–21), economic growth is projected to stabilize at about 6 percent from the pre-crisis level of more than 7 percent. Medium-term growth will be driven by a rebound in mining, growth in agriculture and forestry, an increase in manufacturing, and a stable service sector. Inflation is expected to average around 7 percent over the medium term as weak international food and oil prices offset the impact of the depreciation of the Liberian dollar.

16. The outlook is subject to downside risks. The government's management of the recent flare up of Ebola cases has been applauded by the international community. This notwithstanding, Ebola represents a major risk to short and medium term growth. A wide scale reoccurrence of the epidemic would deter private investment and dampen the already weak economic recovery. The government will continue its effort to increase surveillance and ensure the adherence to health protocols to mitigate this risk. Further slowdown in the global economic environment, particularly in China and other emerging markets, could further depress commodity prices and worsen the crisis in the natural resource sector. The withdrawal of UNMIL could pose security risks, which the government plans to mitigate through the full implementation of the security transition plan. Spillovers from terrorist attacks in neighboring countries could have knock-on implications for consumer, donor, and investor confidence and increase security related spending pressures. Pressures from a weak revenue situation could fuel policy slippages that could be worsened by potential contingent liabilities from the financial sector.

B. Fiscal Policy

17. The government is facing significant fiscal pressures. Revenues from the natural resource sector continue to be weak despite the end of the Ebola epidemic, as investors retrench activity and investment more than expected. Furthermore, external budget support fell in FY2015/16 compared to the previous year and is expected to be even lower this fiscal year. On the spending side, the main pressures derive from elections and the security handover. The total cost of the elections, including its security is estimated at US$53 million (2.4 percent of GDP) for FY2016/17 and FY2017/18, of which US$22 million are budgeted for FY2016/17. The government expected that US$23 million would be financed by the international community but only US$7 million (EU, UNDP, USA, and IFES) have been identified so far. The FY2016/17 budget allocates US$8 million to the security handover, but another US$10 million would be needed.

18. The FY2016/17 budget was approved in September. The total revenue envelope (domestic revenue, external grants, and loans) is US$600 million (27 percent of GDP), including an IMF augmentation of US$18 million as a contingent revenue. This envelope is distributed into recurrent expenditure of US$520 million and public sector investment program (PSIP) of US$80 million (including the cost of the upcoming presidential and general elections (US$22 million) and UNMIL drawdown (US$8 million) for this fiscal year. The envisaged budget deficit is US$27 million (1 percent of GDP).

19. The approved FY2016/17 budget includes revenue measures with an estimated yield of US$24 million. The measures include an increase in the GST tax rate, an increase in the excise on tobacco, and a surcharge on outbound calls:

- Increase in GST rate. The government has raised the GST rate from 7 to 10 percent, bringing it closer to the VAT rate which is expected to be between 15 percent and 17 percent. This measure can generate about US$20 million annually.

- Increase in excise on tobacco. In line with the implementation of the ECOWAS Common External Tariff (CET), excise taxes on tobacco will be increased potentially generating revenues of about US$1 million in FY2016/17.

- Surcharge on outbound calls. This measure was introduced by the Legislature, with an expected revenue of US$2.5 million in FY2016/17.

Text Table 1. FY2017 Budget
(Millions of U.S. dollars)

	FY2016	FY2017	
	Outturn	Approve Budget	Budget Projection
Total resources	**571**	**600**	**563**
Revenue	453	530	493
Tax	402	432	406
Non-tax	51	98	87
Grants	68	30	50
Loans	28	38	18
Carryover	22	2	2
Expenditure	**556**	**600**	**600**
Recurrent	484	520	520
of which : Amortization	13	13	13
PSIP	72	80	80
of which : Election and security handover		30	30
Overall balance	-23	-27	-44
Financing gap (-: deficit)	**15**	**0**	**-37**
Additional measures			**37**
Revenue			6
Expenditure			11
World Bank Crisis reponse window			20

20. Furthermore, in January 2016, the government introduced a storage surcharge of US$0.3 per gallon of fuel imports on top of the existing US$0.2 fee. Revenues from the total surcharge (US$0.5 per gallon) will be split equally between the government and the Liberia Petroleum Refinery Corporation (LPRC) which collects the fees and maintains the storage facilities. The government portion amounting to US$13 million in FY2015/16 has been transferred to the FY2016/17 budget as a dividend. In addition, the LPRC will transfer revenue collected through this surcharge to the government on a monthly basis. For FY2016/17, revenues of about US$30 million were budgeted.

21. The government will continue its efforts to streamline public expenditure by reducing non-priority spending while protecting social expenditure. The government will limit the implementation of the PSIP to ongoing projects. In addition, other spending is constraint by various fiscal measures approved by Cabinet on June 30, 2016:

- **Compensation of employees**: Use of consultant services is constrained and new hiring of regular staff will be limited to the education, health and security sectors.

- **Goods and services**: Official travel, printing and publication, and fuel surcharges have been restricted.

- **Capital expenditure**: New purchase of vehicles and vehicle maintenance and repair will be reduced.

22. However, fiscal performance in FY2016/2017 is at risk. Due to weaker-than-expected economic activity and imports in the first quarter of FY2016/17, Q1 revenue (tax and non-tax) fell short of historical performance projections in the last two years. Furthermore, growth projections have been revised downward compared with the growth assumptions embedded in the preparation of the budget. Finally, the delay in the budget approval also reduces the yield from the new revenue measures. Overall, the projected revenue shortfall is US$37 million (about 1.7 percent of GDP). On the spending side, the government will have to finance an unbudgeted road project at a cost of US$37 million, of which US$10 will be incurred in FY2016/17 and will be financed by domestic loan. The project, critical to the development of Liberia's road network, was to be financed by a foreign company operating a mining concession. Due to the decline in revenues following the fall in commodity prices, the company decided to delay and reduce its contribution to the project.

23. As a result of these recent developments, the government faces a financing gap of US$37 million. Additional US$20 million in budget support grants from the World Bank[1] would partly fill the gap. The government plans to close the remaining US$17 million gap through (i) increasing real estate tax (US$0.5 million); (ii) increasing in excise tax on beverages (US$1 million); (iii) introducing excise surcharge on all domestic call (US$3 million); (iv) increasing other specific goods and service taxes (US$1 million); and (v) reducing expenditure ceiling of goods and service purchase, subsidies and transfers, and fixed capital purchase by 3.8 percent from the approved budget (US$11 million). These proposals were submitted to the Legislature for their approval.

24. The Government will continue to tighten expenditure for FY2017/18. The total available resources are projected to shrink due to a sharp decline in donor budget support, which will be partially mitigated by gradual recovery of domestic economy from the Ebola and commodity shock, and the effect of UNMIL drawdown. In addition, some unavoidable exceptional spending, such as election and security, will remain in FY2017/18 as well. As a result, available resources for regular spending will be almost the same level as this fiscal year. Therefore, current fiscal stance should maintain with gradual shift of spending focus from current expenditure to capital expenditure.

25. The government is establishing a new Road Fund to secure financing sources for the maintenance, rehabilitation, and extension of existing roads. The Road Fund Act was passed by the Legislature in October 2016 and the necessary regulations and institutional arrangements are being finalized to allow the Fund to start operation from FY2017/18. The Fund will be financed through a share of the fuel storage fee revenues described in paragraph 20 and matching co-financing from the Millennium Challenge Corporation (MCC), which will provide up to US$8 million over 5 years. To ensure transparency and accountability of the operations of the Fund, the government will attach the budget of the Road Fund to the National Budget as an annex.

C. Monetary and Financial Sector Policies

26. Monetary policy will continue to be directed towards ensuring low inflation and a stable exchange rate. Inflationary pressures have come to the fore largely owing to a 10.5 percent exchange rate depreciation in the first half of 2016 compared to a similar period in 2015. The depreciation of the Liberian dollar is mainly explained by reduced export earnings in the wake of the slump in commodity prices, stronger-than-expected impact of UNMIL drawdown, and a 15.1 percent slowdown in net inward workers' remittances in the first half of 2016 compared to the same period of 2015. In addition, net government spending in Liberian dollars rose to L$2.7 billion in the first half of 2016 and securities falling due in February and July 2016 were not immediately rolled over. The temporary increase in domestic currency liquidity, coupled with delayed sales of foreign exchange to the CBL by government, led to pressures on the exchange rate. The CBL will continue to intervene in the foreign exchange market to smooth out exchange rate volatility taking into consideration the need to accumulate foreign reserves to strengthen external sustainability.

[1] Under the approved budget, the World Bank's general budget support was a US$20 million credit. However, recently the government was informed that the budget support would be converted to US$40 million grant.

27. The effectiveness of monetary policy continues to be hindered by high dollarization and recent legislative changes. Deposit and credit dollarization is estimated at about 80 and 90 percent respectively restricting the scope for monetary policy and the lender of last resort function of the central bank. In addition, a March 2014 amendment to the CBL Act mandates the issuance of currency to the approval of the Legislature, preventing the CBL from addressing a Liberian dollar liquidity shortage in December 2015. The government will continue discussing with the Legislature to ensure that the amendment is reversed to help improve the conduct of monetary policy and strengthen the independence of the central bank.

28. The government will continue to strengthen the joint MFDP-CBL liquidity management to help anchor inflation. Coordination improved through meetings of the Liquidity Working Group (LWG) in the first half of 2016, with the participation of CBL, LRA, and MFDP. Following a sharp pick up in excess reserves in the banking system, the LWG recommended the issuance of L$6 billion bond with a maturity of two years and an average yield of 14.5 percent, which was issued in July 2016. However, effectiveness of the LWG was hindered by transition at the CBL and MFDP, with the last meeting held in August 2016. To reactivate the work of the LWG, attendance has been elevated to the level of Deputy Governor for Economic Policy (CBL) and Deputy Minister for Economic Management (MFDP). Furthermore, we have resumed the regular bi-monthly meetings starting in October 2016. The government will build on the improved coordination of the joint LWG to agree on costs and to harmonize issuances and maturities of securities to avoid sharp swings in liquidity conditions.

29. The Board of the CBL approved a three-year financial plan in December 2015 that envisages a sizeable reduction in the CBL's operational deficits. The 2016 budget was cut by US$10 million compared to the 2015 budget. Starting with Q1 2016, we are providing quarterly financial statements with comments on the implementation of the CBL financial strategy to the Fund (*repeated structural benchmark for the fifth to eight reviews).* However, the CBL had to address an US$5.2 million unplanned domestic currency printing to address seasonal shortages of liquidity and replace the severely worn out stock of banknotes, following the sudden approval by the Legislature of the long-standing request by the CBL in January 2016. The last currency printing took place in 2012 and the relatively large amount is justified by the uncertainty arising from the need to request legislature approval and the potential volatility in money demand in the electoral period. In response, the CBL accommodated about 60 percent of the printing costs by substituting dollar expenditures with Liberian dollar equivalent for other line items in the budget, leading to a minimal expected impact on the execution of the financial plan in 2016.

30. In 2016–17, the central bank will continue to strengthen its net foreign exchange position. The implementation of the three-year financial plan is a key plan to rebuild external buffers. The CBL intends to limit its deficit by cutting down its operational and capital expenses. The government continues to provide regular monthly sales of US$3.25 million and an additional US$862,500 weekly sales of foreign exchange to the CBL. The CBL will limit its intervention in the foreign exchange market only to smooth out exchange rate volatility. With the resumption of these additional sales, the CBL will prioritize reserve accumulation, targeting gross reserves of 2.9 months of essential imports and a net foreign exchange reserves position of US$181 million by end-2016. The CBL will aim at further increasing reserve coverage to over three months of imports by the end of next year, with a net foreign exchange position of US$192 million by end-June 2017. The CBL stands ready to issue CBL notes as an additional tool in the management of Liberia-dollar liquidity.

D. External Sector Policies

31. The combined impacts of the Ebola crisis and the sharp decline in iron ore and rubber prices have reduced our debt-carrying capacity. Even though the debt stock is relatively low by regional standards, the debt sustainability analysis (DSA) shows that the risk of debt distress has moved from low to moderate in a relatively short period of time after the completion of the HIPC debt relief in 2010. In particular, the debt to export ratio has deteriorated rapidly in recent times and is currently very close to the high-risk of debt distress threshold in the baseline scenario. Any further decline in exports could push the country into high risk of debt distress. With this in mind, the government will monitor the evolution of debt closely, strengthen the capacity of the Debt Management Unit (DMU) and develop a new medium-term debt strategy (MTDS) with technical assistance from IMF and the World Bank.

32. The government has successfully kept new borrowing below the program targets (Text Table 2). No new borrowing agreements were ratified by the legislature in FY2015/16, thereby meeting the end-June 2016 debt ceiling PC set at US$97 million. However, in FY2016/17, the government ratified loans amounting to US$155 million or US$91 million in PV terms. The program envisages the ratification of additional US$95 million in new loans in FY2016/17.

Text Table 2. List of New External Loans by Status for FY2015/16–FY2016/17

Donor	Project	Nominal Value (mils of U.S. dollars)	Grant Element (percent)
	Ratified		
IDA	Additional Financing Agreement for the Accelerated Electricity Project	60	52
OFID	Gbarnga-Salayea Road Project	20	35
BADEA	Gbarnga-Salayea Road Project	13	42
IDA	Youth Opportunities Project	10	53
China Exim Bank	Robert International Airport terminal Project	52	29
	Signed		
IFAD	Tree Crops Extension Project	13	58
IFAD	Rural Community Finance Project	6	58
IDA	Liberia Reneweable Energy Access Project	2	53
IDA	Liberia Urban Water Supply Project	10	53
IDA	Social Safety Nets Project	10	53
AfDB	Mano River Union Road Dev. & Transport Facilitation Program	37	58
Kuwait Fund	Gbarnga-Salayea Road Project	17	26

E. The Implementation of Structural Reform Agenda

Public financial management

33. The government continues to make good progress on its public financial management reform agenda. The government launched the online procurement application system to strengthen the procurement process and published the PEFA report. Further, the existing PFM Act is being revised based on IMF recommendations and a legal consultant will be hired by the MFDP to accelerate the process which is expected to be completed by end-2016. The PFM reform unit is updating the PFM reform strategy to cover FY2016/17–FY2019/20.

34. The government is preparing the action plan to reform public investment management system. In July 2016, an IMF Public Investment Management Assessment (PIMA) identified various weakness in the current public investment practices, such as low investment efficiency, weak project monitoring capacity and system, and limited linkage between externally-financing projects and central government budget. and provided valuable recommendations. The government is developing an action plan to implement the PIMA recommendations, which will be incorporated into the updated PFM reform strategy.

35. Improvement in cash management is proceeding steadily and the implementation of the Treasury Single Account (TSA) will be revamped. The MFDP has developed a draft concept note on the implementation of the TSA in the country, including phased implementation plan. The main elements of the plan include setting up a joint technical working group consisting of MFDP, CBL and commercial banks to discuss ways of operationalizing the TSA; undertake inventory of GoL's bank accounts resident at CBL and those in commercial banks and agree on a memorandum of understanding between the MFDP, CBL and commercial banks on the operation of the TSA. The concept note is being finalized in consultation with the IMF.

36. The government is implementing the action plan developed to address PFM weaknesses underlined in the GAC Audit on Special Procurement of the Ministry of Public Works for Construction of Roads and Bridges. All the contracts identified in this audits have been regularized and an amount of US$11 million has been allocated in this year's budget to pay these contracts which now amount at US$23 million. The government has also taken steps to resolve deficiencies in spending controls identified by the audit. A project monitoring and evaluation unit has been established and staffed in the MFDP to strengthen the public investment implementation.

37. The government is formalizing an agreement with the concession companies on the deferral of social contributions. Due to the commodity price shock, foreign concession companies of key export commodities have requested the government to defer their social contribution payments (totaling about US$10–15 million per year. Taking into account their important role in the domestic economy, especially job creation, the government decided to accept partial deferral (50 percent of their payment) up to FY2018/19. Based on negotiations with the foreign companies, the government is formalizing the agreement in MOUs indicating the length of the deferral (four years starting FY2015/16) and the repayment schedule. The MOUs are expected to be finalized and signed by the four main foreign companies by end-February, 2017 (*structural benchmark for the seventh review*).

38. The government commits to strengthening the budget formulation process and the monitoring of SOEs. The government will integrate recently introduced electronic systems, such as IFMIS, into the next year's budget process and aim to submit the draft budget to the legislature by end-May 2017 at the latest. In addition, from FY2017/18, budgeted ministries and agencies will be required to submit their draft procurement plan based on the draft budget to the Public Procurement and Concession Committees (PPCC) to smooth the procurement process and facilitate the introduction of framework procurement agreements and the phasing out of systematic extension of previous fiscal year contracts (*structural benchmark for the eight review*). The government intends to tighten the control on SOEs. To this end, publication of the quarterly SOE report will continue, with the Q4 also including the financial statements of covered SOEs (*structural benchmark for seventh and eight reviews)*. Furthermore, to ensure the proper management of the increased fuel fees, the government is closely monitoring the financial operations of LPRC.

Revenue Administration

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

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

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

Tax policy reforms

42. The government is making progress with the preparations to introduce a VAT in 2018. The VAT will provide additional scope to improve revenue generation and performance. The VAT Steering Committee has been reconstituted with the Minister of Finance and Development Planning as Chair and had its inaugural meeting in May 2016. The introduction of VAT is required as part of a regional agreement under ECOWAS and Liberia is the last remaining country in the region to introduce it. The government is finalizing the draft VAT bill, which has benefitted from comprehensive comments from the IMF's Fiscal Affairs and Legal departments. A technical assistance request has been submitted to the IMF for an assessment of the capacity of LRA to implement and administer the VAT, including technical and infrastructure requirements. The key next steps include stakeholder's engagements, submission of the bill for ratification and preparation of the LRA for implementation.

43. The government is reviewing the Liberia Revenue Code (LRC) to address a range of shortcomings in the existing legislation, with key modifications approved by the Legislature in September. A range of tax policy and non-tax policy challenges had arisen in the implementation of the existing LRC hindering government's efforts to raise and administer revenues. A review conducted by the MFDP in collaboration with the LRA and through a consultative process identified a number of key problematic tax policy issues including: (i) the design of presumptive tax; (ii) limitation of interest deduction; (iii) taxation of indirect transfer interest in immoveable property; (iv) excise taxation of beverages with reference to WTO and ECOWAS compliance requirements; (v) taxation of telecommunication services; (vi) fuel tax exemptions, and (vii) special investment tax incentives, covering both direct and indirect taxes. The government is committed to streamlining the tax incentive regime by eliminating the differentiation based on region, local content and additional jobs. The government will also apply one uniform accelerated depreciation scheme for companies. The review of the revenue code is also necessary in the context of our membership of the WTO to make tax policies WTO compliant. Key also is simplification of the LRC to facilitate tax administration and compliance. The amendments relating to the presumptive tax, excise taxation of beverages and telecommunication, and investment incentives, complemented by an additional increase in goods and services tax and tobacco excise, were submitted to the Legislature in a bill attached to the FY2016/17 budget and approved in September. The MFDP jointly with the LRA is drafting the remaining amendments to be submitted to the Legislature by end-January 2017.

Monetary and financial sector

44. The CBL is upgrading its core banking application as part of the creation of a common system for WAMU members. The new Temenos T24 system replaces the previous Bankmaster software and covers all the CBL's domestic and foreign exchange operations through front, middle, and back office processing as well as payments. The system has interface with the payment and clearing systems, Automated Clearing House (ACH), Automated Checking Processing System (ACP) Real-Time Gross Settlement System (RTGS), and the Scripless Securities Settlement System (SSSS). The T24 system went live in early 2016 but encountered challenges with reporting capacity. In particular, exportation of data from T24 to the CBL's Microsoft access database that is used for production of financial statements was not always 100 percent successful. This led to delays in meeting monthly reporting obligations but has since been resolved. The CBL is now reconciling back valued entries that were in Bankmaster core banking application to ensure that all transactions are posted in T24. Once the teething problems are resolved, the CBL will focus on producing a daily analytical balance sheet to inform the work of the LWG.

45. The CBL has resolved First International Bank Liberia (FIBLL) bank under a purchase and assumption (P&A) transaction. The equity position of the bank had deteriorated to about negative US$20 million reflecting accumulated operational losses in past years due largely to mismanagement. While its financial position was weakening, FIBLL received about US$19 million liquidity support from the CBL in the course of 2015 and 2016 as concurrent CBL's efforts to effect a recapitalization by original shareholders failed. The P&A option was chosen over outright liquidation because of the absence of a national deposit insurance scheme and of a legal arrangement for providing depositors with prompt access to their funds. The closure of FIBLL was announced by the CBL on June 4, 2016, pursuant to powers vested in the new Financial Institutions Act under section 47–54. The buyers, Ghana Growth Facility Fund (GGFC), injected US$18.5 million to meet the minimum capital requirement of US$10 million and provide additional liquidity support to the new Bank, GN Bank Liberia Limited. Under the P&A agreement, some of the assets of FIBLL were transferred to GN Bank Liberia and most of the deposit liabilities were covered by the acquirer.

46. The CBL is closely monitoring the newly-established GN Bank. Based on recent assessment of the capitalization needs of the bank, GN Bank remains adequately capitalized with sufficient liquidity. A steady reduction in losses has been observed stemming mainly from unwinding of aggressive campaigns for deposits that attracted high rates and modest operational expenses. This notwithstanding the new bank's business plan while comprehensive is also deemed highly ambitious in terms of growth and strategy. These concerns are mitigated by an agreement with the new buyers confirming their obligation to promptly correct any capital shortcomings of GN Bank as the need arise (section 13.2 of the P&A agreement). GN Bank is also under high-frequency supervision and the CBL undertakes to share the monthly supplementary financial soundness indicators and quarterly financial statements with IMF staff up to June 2017. The CBL is strengthening the supervision of the bank through improved information sharing with Bank of Ghana and the College of Supervisors of the West Africa Monetary zone (WAMZ).

47. The CBL is addressing gaps in its supervisory and regulatory framework exposed by the failure of FIBLL. After closing FIBLL, a forensic audit covering the transactions of the bank from 2006 through the closure of FIBLL on June 4, 2016 has been commissioned to KPMG to determine the root causes of the failure. The scope of the audit includes the role of management, related parties, and supervisory governance that led to incidences of mismanagement and CBL's open bank assistance of US$19 million. The audit will be conducted within a period not exceeding six months. We undertake to submit to the Fund staff an interim report detailing preliminary findings of the exercise *(prior action for the combined fifth and sixth reviews)*. The government remains committed to full disclosure and will publish the findings of the forensic audit report, being guided by the requirements of the Liberian judicial system. We will share with the Fund the final report of the forensic audit and will make results available to the relevant judicial authorities consistent with Liberia's laws (structural benchmark for the seventh review), ensuring that any relevant evidence be duly referred to the judicial system according to Liberia's laws.

48. The CBL will continue to work towards a crisis preparedness and management framework to help protect financial stability. The CBL is currently reviewing gaps in the safety net system with emphasis on powers and tools for emergency liquidity, and bank resolution and also drafting related regulations. The CBL, with technical assistance from the Monetary and Capital Markets department of the IMF, has started work on developing operational procedures specifying terms and conditions for the provision of emergency liquidity assistance (structural benchmark for eighth review) and a deposit insurance scheme, but the focus on FIBLL has delayed progress during 2016. The CBL has revised the standing credit facility and reserve requirement regulation (both regulations are expected to be issued by early November, 2016). The CBL is also developing a draft crisis management and resolution framework and commenced work on a framework for the establishment of a deposit insurance scheme. Staff of the CBL are benefiting from several training programs on deposit insurance from AFRITAC West II; however, further TA in terms of reviewing the ongoing work of the CBL is needed. The Bank has made a request to the IMF in this regard. Additionally, consistent with our commitment under the ECF, we will continue to avoid undertaking quasi-fiscal activities to preserve our financial position and the ability to act as a lender of last resort.

49. The CBL will continue to implement measures to reduce the high levels of NPLs. A study on the impact of the exceptional measures implemented by the CBL to help cushion the adverse impact of the Ebola epidemic on the banking system (structural benchmark for fifth review) shows that NPLs increased from US$54.8 million (15.5 percent of total loans) in June 2014 to US$92.4 million (24.6 percent of total loans) in October 2015. The high levels of NPLs threatened the profitability of the banking system and undermined credit expansion. The CBL has accelerated the removal of NPLs from bank portfolios through a comprehensive strategy that will include enforcing the mandatory write-offs of fully provisioned loans. The CBL in conjunction with the Liberian Bankers' Association (LBA) has resumed the "name-and-shame" approach, with the publication of the names of non-compliant delinquent borrowers in October 2016. The measure is proving effective in compelling delinquent borrowers to regularize their loan status with their banks. Considering the systemic nature of NPLs, the CBL is considering establishing an Asset Management

Company (AMC). However, work on this project is still in the early stage. The central bank will intensify oversight of credit risk management by monitoring asset quality on a bank-by-bank basis while monitoring commercial banks to write off irrecoverable legacy NPLs in keeping with existing regulations. To restore lasting profitability to the banking sector in the medium term, the central bank will consider modalities to strengthen the balance sheet of the individual banks.

50. The government and the CBL are implementing measures to contain the withdrawal of correspondent banking relationships (CBR). Global banks have severed at least one CBR with all of the Liberian banks. A survey conducted jointly with the IMF, Financial Intelligence Unit (FIU), and the CBL established that the withdrawal of CBRs was impacting trade finance, flow of remittances, deployment of humanitarian aid, and to some extent financial inclusion. The CBL is taking a lead role by aggregating metrics for the extent of the problem, engaging parent jurisdictions of the respondent banks, advocating for global banks action at various international fora, and working closely with the commercial banks. The CBL has established a dedicated AML/CFT supervision unit and is working with other stakeholders, including the FIU to address gaps in AML/CFT laws relating to financing of terrorist activities and criminalization of illicit trafficking of goods. The US Treasury and World Bank continue to provide technical support toward strengthening the AML/CFT system of Liberia, while the CBL has increased its participation with the Financial Action Task Force (FATF) as evidenced by its participation in FATF Plenary Meetings in recent time.

51. The implementation of the recommendation of the recent safeguards assessment is progressing well. The three-year financial plan—implemented since beginning of 2016 as envisaged—will strengthen the CBL's operational efficiency through prudent budgeting it aims to reduce the CBL's average annual operational deficit by about 33 percent from 2015 levels. To measure our progress towards achieving the objectives of the plan, the CBL will provide quarterly financial statements with comments on the implementation of the CBL financial strategy *(structural benchmark)*. To ensure the safety and liquidity of our international reserves, our Board has approved revised investment guidelines in December 2015 aligning reserve management with international best practices, particularly regarding the requirements for placement of international reserves. To strengthen the CBL financial position, we intend to set up an asset and liability committee (ALCO) to oversee issues of risk management, balance sheet, and financial performance *(structural benchmark for the eighth review)*.

52. A number of reforms are planned to help strengthen financial infrastructure and access to finance. The CBL has initiated reforms intended to modernize the payments system in the country and encourage financial inclusion. All key components of the national payments system (RTGS, ACH, ACP, and SSSS) were implemented fully and went live in April 2016. The CBL is also initiating work on the WAMZ national electronic payment switch. In support of financial inclusion aimed at enhancing access to finance, the CBL established the collateral registry in June 2014 as a means of perfecting security interest in movable assets, such as personal property and inventories, and establishing priority of secured parties based on the date and time of registration of a security interest. The CBL has established 11 rural community finance institutions across eight counties for communities' banks and issued a new regulation for credit unions to facilitate access to finance to the unbanked public in the country including the rural areas. An amendment to the 2014 mobile money regulations allows financial institutions (banks, non-bank financial institutions and non-bank financial service institutions) to apply for license. The CBL has issued two licenses to mobile network to non-bank financial institutions to provide mobile money services and, at the same time, provide a conduit for access to finance.

External sector

53. The country's accession to the WTO will help further improve the business climate in the medium term. Liberia became the 163rd WTO member on July 14, 2016. The benefits of WTO membership, including lower cost of imports and wider export market access owing to reduced trade barriers, will fully materialize only in the medium term. However, the required legislative reforms will help improve domestic business environment, thereby facilitating domestic and foreign investment.

54. The implementation of the ECOWAS Common External Tariff (CET) is proceeding steadily. The implementation of the CET by ECOWAS member states started in January 2014, but its introduction in Liberia was delayed by the Ebola epidemic. As the only ECOWAS country yet to implement the ECOWAS Trade Liberalization Scheme (ETLS), the government will continue to work to ensure the implementation of the CET. The CET was approved by the legislature in September, 2016.

Business climate

55. The government is making progress on improving the business climate. The Land Rights Act will help secure land rights and clearly define mechanisms for acquiring land. Access to electricity is improving, with the first HFO (Heavy Fuel Oil) power plant already operational and two more HFO plants expected to start operations over the coming months. The Mount Coffee hydropower project is on-track and the first unit is expected to produce electricity from December 2016. Crucially, the new hydropower capacity will help bring down electricity cost, now among the highest on the continent. Any reduction of tariff, however, will be carried out consistently with LEC's financial viability.

F. Statistics

56. The government continues to make good progress in improving the quality of statistics, particularly in the areas of national accounts, prices, and external sector. The Liberia Institute for Statistical and Geo-Information Services (LISGIS) is revising national account estimates with technical assistance from the IMF, and has made important progress towards preliminary estimates for 2008–13. Additional data collection is needed to strengthen the revision. The government is therefore working with IMF experts to ensure that additional national account and household surveys are conducted to validate the revision. LISGIS intends to publish the latest estimates with a clear indication that they are provisional. Revision of the consumer price index is ongoing also with the support of the IMF but progress has been delayed by longer than expected processing of the survey results.

57. The government is also revising the CPI basket to reflect household expenditure dynamics. Currently, LISGIS is in the final stages of cleaning the six months of Household Income and Expenditure Survey (HIES) data collected in 2014, and simultaneously searching for experts to complete work in the areas of national accounts, CPI and poverty analysis. The 2016 HIES is underway. LISGIS will also make use of the first half of 2014 HIES data collected to date to update the CPI basket and weights, with support from the World Bank and IMF's Statistics Department. The government plans to publish the revised CPI weights and basket composition by end-January 2018.

58. The CBL has produced a preliminary version of a new customs-based trade dataset. The CBL has been working on a new customs-based exports and imports data series using the ASYCUDA software package. The new data cover all the businesses whose goods go through customs, unlike the old trade data provided by BIVAC. The CBL is currently extending the ASYCUDA-based dataset back to January 2010.

PROGRAM ISSUES AND MONITORING

59. Program implementation will be monitored by quantitative performance criteria (PCs), structural benchmarks, and semi-annual reviews. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding (TMU). We expect the seventh review to be completed on or after March 30, 2017 based on end-December 2016 and other relevant performance criteria, and the eighth review to be completed on or after September 30, 2017 based on end-June 2017 and other relevant performance criteria.

60. The completion of the fifth and sixth reviews will release additional ECF financing of 5 percent of quota (SDR 12.92 million), to be directed to the government budget. The augmentation will be the first installment of additional financing to help fill a balance of payments gap. A Memorandum of Understanding between the Ministry of Finance and Development Planning and the Central Bank of Liberia will be signed to structure the on-lending of the ECF augmentation resources to the central government.

61. An additional access of 5.7 percent of quota (SDR 14.76 million) will be allocated to the seventh and eighth reviews. The amount will be distributed equally to the two reviews and will be used for balance of payment support.

Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, December 2015–June 2017

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

	Dec. 15			Status	Jun. 16		Status	Dec. 16	Jun. 17
	Proposed	Program	Actual		Program	Actual		Program	Program
Performance criteria[1, 2]									
Floor on total revenue collection of the central government[3]	216.7	216.7	209.4	Not met	473.7	452.9	Not Met	196.6	493.5
Ceiling on new external arrears of the central government (continuous basis)[4]	0.0	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0
Ceiling on new non-concessional external debt of the public sector (continuous basis)	...	...	...		...	...		...	...
Ceiling on new domestic borrowing of the central government[5]	144.5	144.5	97.0	Met	144.5	75.0	Met	186.4	186.4
Floor on CBL's net foreign exchange position[6, 7]	184.3	184.3	164.4	Not met	192.3	178.0	Not Met	181.0	188.5
Ceiling on CBL's gross direct credit to central government[7]	352.9	352.9	352.8	Met	352.9	353.4	Not Met	353.9	372.0
Ceiling on the present value of gross external borrowing by the public sector[8]	97.0	97.0	0.0	Met	97.0	0.0	Met	101.2	140.7
Indicative Targets									
Ceiling on gross external borrowing by the public sector[9]	...	...			...				
Ceiling on net domestic assets of the CBL[6, 7]	25.2	25.2	12.4	Met	25.2	45.9	Not Met	30.0	39.0
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0
Floor on social and other priority spending (percent of total actual expenditure, excluding contingencies)[10]	32.5	32.5	39.9	Met	32.5	37.9	Met	32.5	32.5
Memorandum items:									
Total spending on education, health, social development services (percent of total actual expenditure, excluding contingencies)	25.0	25.0	21.3	...	25.0	23.6		25.0	25.0
Programmed receipt of external budget support grants and committed external loans[2, 11]	39.2	39.2	67.1	...	140.0	96.1		66.2	88.4

Sources: Liberian authorities and IMF staff estimates and projections.

1 2015 June is IT. Proposed performance criteria at end-December 15 and end-June 2016 are associated with the proposed extension and rephasing of the ECF arrangement.

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

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

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

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

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

7 The floor on net foreign exchange position will adjust downwards and ceilings on CBL gross credit to government and CBL net domestic assets adjust upwards by the extent bridge financing is from the CBL is available under the program for shortfalls in programmed receipt of external budget support and committed external financing, up to a maximum of US$20 million.

8 Effective after the completion of the fourth review, the new target is set and monitored in PV terms, based on the average annual ceiling under the program period. An adjustor of up to 5 percent applies in case deviations from the ceiling are prompted by a change in the financing terms.

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

10 Includes spending on education, health care, social development services, and energy.

11 The PC excludes the grants for Mount Coffee executed by the Liberian Electricity Company.

Table 2. Liberia: Structural Benchmarks for the Fifth ECF Review (End-December 2015 to End-May 2016)

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Extend IFMIS coverage to 15 externally-financed projects.	End-December 2015	Strengthen project execution and monitoring.	Met.
Launch a quarterly regular donor meeting to collect necessary information to monitor externally-financed projects.	End-January 2016	Strengthen the monitoring of external assistance, particularly of multi-year investment projects.	Not met (completed with delay). The MFDP has institutionalized a quarterly budget support donor meeting, beginning February 2. In addition, the Aid Management Unit holds regular quarterly project review meeting with World Bank and AfDB project managers. The next meeting will be in November.
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.	End-March 2016	Strengthen the monitoring of investment projects to ensure adequate budgetary allocations, particularly, of multi-year projects.	Not met. The PIU developed an Excel-base database table template. However, the population of the database has been delayed by the collection of necessary information, especially about project execution progress.
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.	End-March 2016	Strengthen public investment management.	Met.

Table 2. Liberia: Structural Benchmarks for the Fifth ECF Review (End-December 2015 to End-May 2016) (concluded)			
Measure	**Target Date**	**Justification**	**Current Status-Risks**
Publish quarterly reports on the financial performance of State Owned Enterprises (SOEs) for FY2016Q1 and Q2.	End-March 2016	Improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	Not met (completed with delay). The Q1-Q2 report was published on May 19, 2016.
Expand the existing database of externally-financed projects to cover cost overrun, project implantation delay, and payment arrears.	End-May 2016	Strengthen the monitoring particularly of multi-year investment projects to ensure adequate budgetary allocations.	Not met. The expansion has been delayed by the limited availability of the IT commercial counterpart.
Enhancing monetary operations and developing the financial sector			
Finalize the study of the impact of the measures introduced in December 2014 by the CBL to soften the impact of the Ebola crisis.	End-December 2015	Strengthen supervisory oversight and regulation.	Not met (completed with delay). The study was finalized and submitted to the IMF in February 2016.
Develop a framework for Emergency Liquidity Assistance and crisis management.	End-March 2016	Ensure that any emerging problems in the financial sector are tackled early with minimal impact on financial stability.	Not met. Work was delayed by focus on liquidation of FIBLL. However, a draft crisis management framework has been developed and shared with the IMF in September 2016.
Starting with Q1 2016, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.	End-May 2016	Ensure that efforts are being implemented to facilitate a gradual return to financial viability.	Not met. Work has been delayed by the migration of the CBL accounting system into the Temenos 24 software.

Table 3. Liberia: Structural Benchmarks for the Sixth ECF Review, End-June to October 2016

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
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.	End-June 2016	Improve execution of public investment.	Not met. The target proved too ambitious in light of the weak enforcement of the PPC Act at the level of the M&As.
Extend IFMIS coverage to additional 10 large externally-financed projects.	End-June 2016	Strengthen project execution and monitoring.	Met. The MFDP has migrated 15 externally-financed projects in the Public Financial Management Unit.
Publish quarterly reports on the financial performance of SOEs for FY2016Q3 and Q4.	End-September 2016	Improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	Met.
Developing the financial system			
Starting September 2016, modify the implementation of reserve requirements by allowing banks to meet the requirements, on average, over a maintenance period.	End-September 2016	Strengthen liquidity management.	Not met. The CBL has amended regulations on reserve requirements and shared them with staff in September 2016. However, the implementation of the new reserve requirement system has been delayed by the legal requirement to make the regulation effective.
For Q2 2016, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.	End-October 2016	Ensure that efforts are being implemented to facilitate a gradual return to financial viability.	Met.

Table 4. Liberia: Proposed Prior Actions for the Fifth and Sixth Reviews

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
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.		Strengthen the monitoring of investment projects to ensure adequate budgetary allocations, particularly, of multi-year projects.	
Enhancing monetary operations and developing the financial sector			
Submit an interim report of the forensic audit of First International Bank of Liberia Limited to be conducted by an internationally reputable international firm.		Strengthen banking supervision and regulation by addressing governance and supervisory weaknesses that led to the liquidation of FIBLL.	

Table 5. Liberia: Proposed Structural Benchmarks for the Seventh ECF Review
(End-December 2016 to End-May 2017)

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Expand the existing database of externally-financed projects to cover cost overrun, project implantation delay, and payment arrears.	End-December 2016	Strengthen the monitoring particularly of multi-year investment projects to ensure adequate budgetary allocations.	Postponed from the fifth ECF review.
Formalize the agreement with the four largest foreign concession companies, including the length of the deferment (no more than four years from FY2015/16) and payment schedule.	End-February 2017	Improve natural resource revenue management	Newly proposed.
Publish quarterly reports on the financial performance of State Owned Enterprises (SOEs) for FY2016/17Q1 and Q2.	End-March 2017	Improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	

Table 5. Liberia: Proposed Structural Benchmarks for the Seventh ECF Review (concluded) (End-December 2016 to End-May 2017)			
Measure	**Target Date**	**Justification**	**Current Status-Risks**
Enhancing monetary operations and developing the financial sector			
Submit to the Fund staff the final report of the forensic audit of First International Bank of Liberia, and make the results available without delay to the relevant judicial authorities, consistent with Liberian laws	End-May 2017	Safeguard against vulnerabilities in the banking sector and the CBL's financial position.	
Develop a framework for Emergency Liquidity Assistance and bank crisis management.	End-May 2017	Ensure that emerging liquidity problems in the financial sector are tackled early with minimal impact on financial stability.	Postponed from the sixth ECF review
For Q1 2017, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.	End-May 2017	Ensure that efforts are being implemented to facilitate a gradual return to financial viability.	

Table 6. Liberia: Proposed Structural Benchmarks for the Eighth ECF Review
(End-December 2016 to End-September 2017)

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
At least 50 percent of M&As with budget allocation lines to submit to the PPCC the spending and procurement plans for recurrent and PSIP expenditure based on the draft FY2017/18 budget.	End-June 2017	Strengthen budget process and improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	
Publish quarterly reports on the financial performance of State Owned Enterprises (SOEs) for FY2016/17Q3 and Q4. The Q4 report should include summary financial statements.	End-September 2017	Improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	
Enhancing monetary operations and developing the financial sector			
Set up an asset liability committee (ALCO) to oversee issues of risk management, balance sheet, and financial performance.	End-April 2017	Strengthen the CBL's management of assets and liabilities and its financial position.	
For Q2 2017, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.	End-September 2017	Ensure that efforts are being implemented to facilitate a gradual return to financial viability.	

Attachment II. Technical Memorandum of Understanding

This memorandum sets out the understandings between the Liberian authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative and structural performance criteria and benchmarks for the Extended Credit Facility (ECF), as well as the reporting requirements which ends November 21, 2017. The definitions are valid at the start of the program but may need to be revisited during the program reviews to ensure that the memorandum continues to reflect the best understanding of the Liberian authorities and the IMF staff in monitoring the program.

QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

A. Test Dates

1. Quantitative performance criteria have been set for end-December 2016 and end-June 2017.

B. Definitions and Computation

2. For the purposes of the program, **the Government is defined as the Central Government of Liberia (GoL)**. This definition excludes legally autonomous state-owned enterprises whose budgets are not included in the central government budget. The operations of the central government will be presented in U.S. dollar with all revenues and expenditures that are denominated in Liberian dollar converted at the end of period exchange rate. The public sector comprises the central government, the Central Bank of Liberia (CBL), and public enterprises (enterprises and agencies in which the government holds a controlling stake—typically owns more than 50 percent of the shares, but which are not consolidated in the budget).

3. Total Central Government revenue collection includes all tax and nontax receipts (excluding contingent revenues) transferred into the GoL Revenue accounts at the CBL, including income and transfers from state-owned enterprises and public institutions (excluding external loans and grants). The GoL accounts at the CBL include the GoL Revenue Accounts in U.S. dollars, the Revenue Accounts in Liberian dollars, the Civil Servants Payroll Accounts in Liberian dollars, the General Operations Accounts in U.S. dollars, the General Operations Accounts in Liberian dollars, the GoL Special Rice Fund, and all Ministries and Agencies operational and other accounts. Any new accounts opened by the GoL at the CBL or at any other local financial agency shall be reported to the IMF by the Ministry of Finance and Development Planning through the Office of the Comptroller and Accountant General. For the purposes of the program, the revenues of the GoL are measured on the basis of cash deposits in the Revenue Account in U.S. dollars, the Revenue Account in Liberian dollar, and the GOL Special Rice Fund converted to U.S. dollars using the end of period exchange rate.

4. For end-December 2016 and end-June 2017, social spending is defined as education, health, social development services, and energy sector spending. Education, health, and social spending consist of the payments from the FY2016/17 budget of the units listed below (payment vouchers approved by the Ministry of Finance and Development Planning (MFDP) excluding contingent expenditure. Energy spending consists of the payments from the FY2016/17 budget and off-budget spending financed by external loans and grants. It is evaluated as a share of total expenditure (payment vouchers approved by the MFDP). Total expenditure consists of spending under the FY2016/17 budget, excluding contingent expenditure tied to contingent revenues, and off-budget energy spending financed by external loans and grants.

Total Education, Health, Social Development Services, and Energy Spending
Education
Ministry of Education
University of Liberia
Monrovia Consolidated School System (MCSS)
Booker Washington Institution (BWI)
Gbarnga Central High
Forestry Training Institution (FTI)
Cuttington University (CUC)
National Commission on Higher Education (NCHE)
W. V. S. Tubman Technical College (WVSTC)
West African Examination Council (WAEC)
Liberia Institute for Public Administration
Agricultural and Industrial Training Bureau
Zorzor Rural Teacher Training Institute
Webbo Rural Teacher Training Institute
Kakata Rural Teacher Training Institute
Bassa County Community College
Bomi County Community College
Nimba Community College
Lofa Community College
Gboveh Community College
Health
Ministry of Health
JFK Medical Center (JFKMC)
Phebe Hospital
LIBR
Jackson F. Doe Medical Hospital
Liberia Medicines and Health Regulatory Authority
National Aids Commission

Total Education, Health, Social Development Services, and Energy Spending (concluded)
Social Development Services
Ministry of Youth & Sports
Ministry of Gender Children & Social Protection
Liberian Refugee Repatriation and Resettlement
National Commission on Disabilities
National Veterans Bureau
Liberia Agency for Community Empowerment
Energy Sector
Thermal diesel (HFO) power station
Transmission and distribution
Mount Coffee rehabilitation, transmission, and distribution to Bushrod Island

5. **The Social and other priority spending targets will be adjusted downward** by the undisbursed amounts from budgeted external financing (grants and borrowing) allocated to projects in the energy sector within the public sector investment program.

6. **New domestic borrowing of the Central Government** is defined as new domestic claims by residents on the central government since the start of the program. It will be measured by the change in the stock of all outstanding claims on the central government (domestic loans; advances; government guarantees; and contingent financial liabilities as stipulated in paragraph 7; and any government debt instruments, such as treasury bills and long-term government securities issued in the domestic market) by the banking system. The definition also includes the issuance of debt instruments by the GoL to the nonbank sector. For the purposes of measurement, claims in Liberian dollars will be converted at the end of period exchange rate.

7. **Contingent financial liabilities of the central government (external and internal) include but are not limited to** (i) any guarantee, direct or implicit, of the performance or payment obligations of any private or public entity; (ii) any agreement, including any indemnification agreement, to hold another private or public entity harmless or to provide insurance or similar protection against risk of loss; (iii) any guarantee of economic return to another public or private entity including any guarantee of profit, income or rates of return; (iv) any agreement to provide financial support to another private or public entity in connection with specified activities of such other entity; and (v) any other agreement as provided by regulations under Liberia's Public Financial Management Act.

8. **Gross external borrowing by the public sector** is defined as cumulated new public sector external debt as from July 1, 2016, excluding borrowing for reserve management purposes by the CBL.

9. **The definition of external debt (both concessional and non-concessional) by the public sector**, for the purposes of the program, refers to the debt owed to non-residents, and it

applies not only to the meaning set forth in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014 (Annex I), but also to commitments contracted or guaranteed for which value has not been received. External debt is considered as contracted or guaranteed for program monitoring purposes once all conditions for its entrance into effect have been met, including ratification, if required.

10. A debt is defined as concessional if, on the date of signature, the ratio between the present value of debt and the face value of the debt is less than 65 percent (equivalent to a grant element of at least 35 percent). The discount rate used for this purpose is 5 percent for all the loans signed after July 3, 2014. For all the loans signed before July 3, 2014, the discount rate will be determined on the basis of the commercial interest reference rates published by the Organization for Economic Cooperation and Development (OECD) on the date of signature.

11. Present value (PV) of new external debt is defined as debt contracted or guaranteed by the public sector with original maturities of one year or more, including debt for which value has not yet been received and private debt for which official guarantees have been extended.

12. PV on new external debt adjustor. The program ceiling for PV of new external debt will be adjusted upward up to a maximum of 5 percent of the external debt ceiling set in PV terms, in case deviations from the PC on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

13. The government undertakes not to incur payments arrears on external debt that it owes or guarantees, with the exception of external payments arrears arising from government debt that is being renegotiated with creditors, including Paris Club creditors. Arrears on external debt are defined as any unpaid obligation on the contractual due date. In cases where a creditor has granted a grace period after the contractual due date, arrears are incurred following the expiration of the grace period.

14. New domestic arrears/payables of the government are calculated as the difference between government payment commitments and the actual payments made on such commitments, providing for a processing period of no more than 90 days from the date of commitment. Actual payments are defined as having taken place on the date of issuance of the checks by the Ministry of Finance and Development Planning. Government payment commitments include all expenditure for which commitment vouchers have been approved by the Expenditure Department, and expenditures that are now automatically approved, namely, wages and salaries, pensions, debt payments to the CBL and commercial banks, CBL bank charges, and transfers of ECOWAS levies into the ECOWAS account.

15. CBL gross direct credit to the central government is defined as the sum of claims on the central government, including loans, advances, guarantees and contingent financial liabilities as defined in paragraph 7, accounts receivable, bridge financing, overdrafts, and any government debt instrument as defined in the monetary survey template excluding CBL purchases of treasury bills in the secondary market. An overdraft is defined as a negative outstanding balance of the consolidated government account at the CBL (i.e., the sum of the GoL Revenue Accounts in U.S. dollars; the Revenue Accounts in Liberian dollars; the Civil Servants Payroll Accounts in Liberian dollars; the General Operations Accounts in U.S. dollars; and the General Operations Accounts in Liberian dollars). The gross credit to the government is expressed in U.S. dollars. Claims denominated in Liberian dollars are valued at the end-of-period exchange rate.

16. The net foreign exchange position of the CBL is defined as the difference between gross reserve assets and gross reserve liabilities. The net foreign exchange position of the CBL is presented in U.S. dollars. Assets and liabilities denominated in SDRs are valued at a fixed rate of the U.S. dollar against SDR 1.5844. Other currencies are valued at cross rates against the U.S. dollar as of end-June 2012.

17. Gross reserve assets of the CBL include the following: (i) monetary gold holdings of the CBL; (ii) holdings of SDRs; (iii) the reserve position in the IMF; (iv) foreign convertible currency holdings; (v) foreign denominated deposits held in central banks and other banks; (vi) loans to foreign banks redeemable upon demand; (vii) foreign securities and (viii) other unpledged convertible liquid claims on non-residents. It excludes the following: (i) any foreign currency claims on residents; (ii) capital subscriptions in international institutions; (iii) foreign assets in nonconvertible currencies (iv) gross reserves that are in any way encumbered or pledged, including, but not limited to (a) assets blocked when used as collateral for third-party loans and third party payments or pledged to investors as a condition for investing in domestic securities; (b) assets lent by CBL to third parties that are not available before maturity and are not marketable; (c) foreign reserves blocked for letters of credit.

18. Gross reserve liabilities of the CBL are defined as sum of the following (i) outstanding short-medium term liabilities of the CBL to the IMF; (ii) all short-term foreign currency liabilities of the CBL to non-residents with an original maturity of up to, and including, one year, and (iii) all foreign currency deposits of domestic banks and government with the CBL. SDR allocations are excluded from gross reserve liabilities of the CBL.

19. The net domestic assets of the CBL are defined as base money minus the net foreign assets of the CBL converted into United States dollars at program exchange rates as defined in paragraph 14. Base money is defined as the stock of Liberian dollars in circulation plus reserve deposits of commercial banks in Liberian dollars at the CBL, plus sight deposits of commercial banks in Liberian dollars at the CBL and plus vault cash of commercial banks in Liberian dollars. The net foreign assets of the CBL are defined as foreign assets minus foreign liabilities of the CBL balance sheet.

20. External financing adjustor. Bridge financing from the CBL is available under the program for shortfalls in programmed receipt of external budget support and committed external financing up to a maximum of US$20 million. In this event, floor on net foreign exchange position will adjust downwards and ceilings on CBL gross credit to government and CBL net domestic assets adjust upwards by the extent this financing is utilized, up to a maximum of US$20 million. The adjustor will be calculated on a cumulative basis from the start of the fiscal year (July 1).

21. Adjustor for the December 2016 augmentation of access tied to completion of the fifth and sixth ECF review. The PC for the net foreign reserves floor would be lowered and the ceilings on both CBL's gross direct credit to the central government and CBL's net domestic assets would be raised by the full amount of the ECF augmentation released on the completion of the fifth and sixth reviews and to allow for on-lending of the equivalent of the additional Fund support.

Cumulative Program External Budget Support and Budgeted External Loan Disbursements
(Millions of U.S. dollars)

	FY2017				
	Q1	Q2	Q3	Q4	Total
Total Budget Support	6	61	7	15	**88**
Grant	6	42	7	15	**70**
Loan	-	18	-	-	**18**

PROGRAM MONITORING

A. Data Reporting to the IMF

22. To allow monitoring of developments under the program, the Ministry of Finance and Development Planning will coordinate and regularly report the following information to the staff of the IMF:

Data Reporting Requirements for Program Monitoring

Reporting Agency	Table/Report	Frequency	Timing
	Fiscal		
MFDP	Monthly fiscal reconciliation reports, where cash revenue and expenditure with spending commitments are reconciled	Monthly	Within three weeks after the end of the month
MFDP	Detailed reports on monthly core and contingent revenue and expenditure on both a cash and a commitment basis by budget line and a completed summary table on central government operations	Monthly	Within three weeks after the end of the month

Data Reporting Requirements for Program Monitoring (continued)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
MFDP	Outstanding appropriations, allotments and commitments, and disbursements for line ministries and agencies	Monthly	Within three weeks after the end of the month
MFDP	A detailed report on disbursements of budget support, grants and budgeted and off-budget loans, by donor and by project	Monthly	Within three weeks after the end of the month
CBL	Monthly sweeping reports showing the end of the month balances of the GoL accounts at the CBL and of all operations and other accounts at the CBL of the M&As	Monthly	Within three weeks after the end of the month
CBL	End-of-month balances of all operating and other accounts at the CBL of the line ministries and agencies receiving budgetary appropriations	Monthly	Within three weeks after the end of the month
CBL	End-of-month balances of all operating and other accounts at the CBL of all other public Institutions	Monthly	Within three weeks after the end of the month
MFDP	A table providing the end-of-period stock of domestic arrears accumulated and payments made on arrears during the program period, by budget category (wages, goods and services, etc.), including payment and stock of existing arrears from the previous ECF Arrangement	Monthly	Within three weeks after the end of the month
Balance of Payments and Debt			
MFDP	Quarterly reports of state owned enterprise financial operations submitted to the Ministry of Finance and Development Planning	Quarterly	Within 45 days after the end of the quarter
MFDP	The report on the status of implementation of the performance criteria and structural benchmarks specified in Tables 1, 3, and 4 of the MEFP	Monthly	Within three weeks after the end of the month
CBL	Export volumes and values by major commodity, import values by standard international trade classification (SITC), import volumes of rice (by commercial and noncommercial use) and petroleum products	Monthly	Within three weeks after the end of the month

Data Reporting Requirements for Program Monitoring (continued)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
MFDP	The amount of new external debt contracted or guaranteed by the public sector	Monthly	Within three weeks after the end of the month
MFDP	The amount of new domestic debt contracted or guaranteed by the public sector	Monthly	Within three weeks after the end of the month
MFDP	A detailed report on monthly payments on external debt by category and creditors and the stock of external debt	Monthly	Within three weeks after the end of the month
MFDP	A detailed report on monthly payments on domestic debt by category and the domestic debt stock	Monthly	Within three weeks after the end of the month
Monetary and Exchange Rate			
CBL	The balance sheet of the CBL in the monthly monetary survey	Monthly	Within three weeks after the end of the month
CBL	The full monthly monetary survey of the monetary sector	Monthly	Within three weeks after the end of the month
CBL	The detailed table of commercial banks' loans and advances by sector	Monthly	Within three weeks after the end of the month
CBL	The core set of financial soundness indicators for the banking system, including the overall profitability of the banking sector	Quarterly	Within three weeks after the end of the Quarter
CBL	The core set of financial soundness indicators for GN bank, including capital, liquidity, profitability, asset quality, and income position.	Monthly	Within four weeks after the end of the month up to June 2017
CBL	Abridged financial statements of GN bank including its income statement that are regularly published.	Quarterly	Within four weeks after the end of the quarter up to end June 2017
CBL	The report on the results of foreign exchange sales/purchases by the CBL through foreign exchange auctions held by the CBL and other currency exchange facilities	Weekly	Within a week

Data Reporting Requirements for Program Monitoring (concluded)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
CBL	A report on the results of T-bills and CBL bills issuances	Monthly	Within one week after the end of month
CBL	Regular sale of U.S. dollars by the Ministry of Finance and Development Planning to the CBL, including amount date, and rate of exchange	Monthly	Within one week after the end of month
CBL	Daily foreign exchange rates	Daily	Every working day
CBL	Interest rates	Monthly	Within three weeks after the end of month
CBL	A detailed report on liquidity forecasting up to 6 months ahead, including: (i) projected government's cash flows (revenue, expenditure, repayments and disbursements of loans including T-bills) by currency; (ii) projected flows to the CBL's net exchange position, including but not limited to planned U.S. dollar sales in the foreign exchange auction, and planned foreign exchange transactions with the Government; and (iii) projected flows of Liberian dollar liquidity, including but not limited to planned CBL Notes issuance	Monthly	Within six weeks after the end of month
Real			
CBL	Production data in value and volume	Quarterly	Within six weeks after the end of the quarter

23. The above data and reports will be provided electronically to the IMF Resident Representative to Liberia, with copies to the local IMF economist, Mr. Deline (adeline@imf.org) for further transfer to the African Department of the IMF in Washington, D.C.

24. Moreover, we will provide the Fund with such information as the Fund requests in connection with the progress in implementing the policies and reaching the objectives of the program.

Annex. Guidelines on Performance Criteria with Respect to External Debt

Excerpt from Executive Board Decision No. 15688-(14/107), adopted December 5, 2014

Paragraph 8

(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

INTERNATIONAL MONETARY FUND

LIBERIA

December 1, 2016

FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AUGMENTATION OF ACCESS, AND EXTENSION OF THE ARRANGEMENT—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of October 31, 2016)

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

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

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	123.98	100.00
Holdings	153.64	123.93

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	32.30	12.50
ECF Arrangements	83.41	32.28

Latest Financial Arrangements:

	Date of Arrangement	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF	Nov. 19, 2012	Dec. 31, 2016	83.98	69.21
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				
	2016	2017	2018	2019	2020
Principal			2.10	10.46	20.04
Charges/Interest		0.00	0.00	0.20	0.16
Total		**0.00**	**2.10**	**10.46**	**20.04**

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

Safeguards Assessment

The November 2015 update safeguards assessment confirmed a weak governance and control environment at the Central Bank of Liberia (CBL). The assessment's key concerns are being addressed by program measures. In addition to the forensic audit, these include strengthening the CBL's investment policies, the approval of its financial plan (prior actions for the 4th review), and the establishment of an emergency liquidity assistance (ELA) framework (structural benchmark for the seventh review). Remaining recommendations include legal amendments to align the CBL Act with best practices, strengthening the internal audit function, and enhancing audit and control oversight.

[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.

Exchange Rate Arrangement

Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers. The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. 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 six-month band. The de jure exchange rate regime classification remains '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 November 30, 2016 was L$100.5=US$1 (mid-point between buying and selling rates).

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

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

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

The fourth review of the ECF arrangement and requests for waivers of non-observance of performance criteria, modification of performance criteria, and rephasing and extension of the arrangement was discussed by the Board on December 21, 2015 (Country Report No. 16/8, January 8, 2016) and is posted on the IMF website.

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

Technical Assistance 2014–16

Topic	Date
Fiscal Affairs Department	
Revenue Administration	February–March and April-May 2014, November 2014–April 2015 (Remote), July–August, September-October, and November–December 2015, January, March, April, and May, November 2016 Long-term residential advisor has been deployed in the LRA since January 2016.

Topic	Date
Fiscal Affairs Department	
Public Financial Management Reform	January, February, November 2016
Natural Resource Revenue	January and March 2016
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
Statistics Department	
Balance of Payments	July 2014 and January–February, June–July 2016
Government Financial Statistics	September 2016
National Accounts and Consumer Price Index	May 2014, April–September (Remote), June–July, November 2015, March, July, August, September 2016
Monetary and Capital Markets Department	
Banking Supervision	January, April, July 2014. February, April–May, August, November 2016
Central Bank Accounting	August 2016
Monetary Analysis and Payment System	November 2016
Basel II/III Training Workshop	November 2016
Liquidity Forecasting	May 2014, August 2015, and January–February 2016
Crisis Preparedness and Management Framework	October–November 2015

Resident Representative

A resident representative has been posted in Monrovia since April 2, 2006. Mr. Sobolev assumed the position in July 2009 and his term expired in September 2013. Mr. Amo-Yartey assumed the post as a new resident representative on May 1, 2014.

JOINT WORLD BANK-IMF WORK PROGRAM, 2012–17

(As of November 16, 2016)

Title	Products	Timing of mission	Expected delivery date	Status
A. Mutual information on relevant work programs				
1. WB work program	1. Public Expenditure Review Notes	November 2011	July 2013	Completed
	2. First Poverty Reduction Support Credit (PRSC I)	May 2013	August 2013	Approved and disbursed
	3. Second Poverty Reduction Support Credit (PRSC II)	October 2013	September 2014	Approved and disbursed
	4. Supplemental Financing to Second Poverty Reduction Support Credit	October 2015	February 2016	Approved and disbursed
	5. Third Poverty Reduction Support Credit (PRSCIII)	March 2015	September 2016	Approved
	6. Fourth Poverty Reduction Support Credit (PRSCIV)	March 2016	October 2017	Planned
	7. Household Income and Expenditure Survey-II	On-going	January 2017	Survey on-going
	8. Economic Diversification Study	January 2017	June 2017	Concept
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	On-going
	11. Article IV Consultation	April 2017	July 2017	On-going

Title	Products	Timing of mission	Expected delivery date	Status
3. WB/IMF Joint work program	1. Updated Debt Sustainability Analysis	October 2015	December 2015	Complete
	2. Technical Assistance for PFM Reforms and Decentralization.	June 2015		On-going
	3. Assist the Authorities in Developing National Accounts and Consumer Price Index	June 2015	June 2016	Completed
	4. Economic Survey	September 2016	January 2017	Planned
B. Requests for work program inputs				
4. Fund request to Bank	1. Regular updates on the Liberia Reconstruction Trust Fund, disbursements of loans, including PRSC		Quarterly and as needed	
	2. World Bank Relations Note		As needed	
5. Bank request to Fund	1. Regular updates of performance under the Fund-supported program, macroeconomic projections and data following each IMF mission		Continuous	
	2. IMF Relations Note		As needed	

RELATIONS WITH THE WORLD BANK GROUP[1]

(As of November 16, 2016)

A. Bank Group Strategy

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

2. **The World Bank Group's program under the CPS involves a combination of development policy lending, investment lending 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. The majority of the IDA financing during the CPS period will focus on investment in the energy and transport sectors to help remove binding constraints to growth and improve well-being. IDA financing under the CPS will 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$25–35 million per year**. The current IFC portfolio comprises US$24.4 million in equity; US$37.3 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 including commitment of some US$177 million from the 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. In response to the sharp and

[1] Prepared by the World Bank.

sustained reduction in the prices of Liberia key exports of rubber and iron ore and the adverse effects on budgetary revenues, on October 26, the Board of the World Bank Group approved US$20 million from the Crisis Response Window to help cover the shortfall in immediate financing needs caused by the persistent commodity price shock.

B. Active Projects

5. There are currently fourteen active[2] IDA projects in Liberia, including two regional projects, with a total commitment of approximately US$400.8 million of which approximately US$188.3 million is undisbursed. Four new projects were approved in FY2016 for a total of US$32.0 million of IDA resources. These three projects are summarized below:

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

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

8. The Liberia Youth Opportunities Project was approved on November 6, 2015 for US$10 million. The Project Development Objectives are 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: (i) *Pre-employment Social Support and Household Enterprises for Urban Youth,* addressing youth labor market participation and behavioral constraints; (ii) *Productive Public Works and Life Skills Support,* providing vulnerable youth in rural

[2] Includes effective and or disbursing operations.

areas with immediate consumption smoothing support through productive public works and life skills training; (iii) *Capacity Building for Cash Transfer Program,* supporting the building blocks for a basic safety net system, including (a) improving targeting; (b) strengthening ICT systems and electronic payments systems; (c) establishing information management systems; (d) ensuring a functional M&E system; and (e) strengthening of social accountability and grievance redress systems; and (iv) *Project Implementation and Coordination,* supporting implementation and coordination across ministries and agencies.

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

C. Economic and Sector Work

10. The World Bank has completed a comprehensive Public Expenditure Review (2013), which explores various options for fiscal space enlargement. Given the large amount of additional expenditure required for the implementation of the government's second Poverty Reduction Strategy- the Agenda for Transformation, it is critical that all options are examined to accommodate these expenditures. The PER focuses on measures for: (a) improving the efficiency of public expenditure; (b) increasing the amount of external grants; (c) mobilizing greater revenue from taxes, non-tax revenue and natural resources; and (d) public sector borrowing.

11. The World Bank has also completed a human development Public Expenditure Review covering the education, health and social protection sectors (2012). Public spending on the human development sector in Liberia is low by Sub-Saharan Africa (SSA) standards. The PER therefore examines a number of key public expenditure issues affecting progress in attaining the MDGs. The Review considers the sources and levels of funding, budgetary allocations across and within the sectors, and the quality, equity and efficiency of public expenditure on human development.

12. The World Bank has recently completed a policy note on Jobs "Creating More and Better Jobs in Liberia: Issues and Options (2014)". The Government of Liberia is deeply concerned by what is perceived to be relatively high rates of joblessness in an economy that is recovering from fourteen years of civil conflict. A comprehensive policy response to the Government's concern is constrained by a lack of critical knowledge. Furthermore, traditional metrics for measuring the performance of the labor market poorly cover the dominant urban and rural informal sectors, or the extent of underemployment. The note is therefore intended to help fill the critical knowledge gap through a systematic analysis of the labor market, focusing on issues related to both the demand and supply sides. The analysis draws on quantitative information from the 2007 and 2010, Core Welfare Indicator Questionnaires Survey (CWIQS); the 2010 Labor Force Survey; the 2012 Poverty Note as well as the host of quantitative and qualitative analyses done on Liberia and in the region over the last five years. The note focuses on issues on both the demand and supply sides of the labor market as well as the effects of employment protection legislation.

D. Financial Relations (as at November 16, 2016)

Active and Disbursing Projects[1]
(U.S. Dollars)

Project	Approved Amount (USD Eq)	Approval Date	Closing Date	Undisbursed Balance[1] (USD Eq)	Disbursed Outstanding Balance (USD Eq)
	400,800,000.00			188,286,235.93	167,600,314.07
Liberia Youth Opportunities Project	10,000,000.00	6-Nov-15	31-Dec-20	9,817,560.00	0.00
Liberia Health Systems Strengthening	10,000,000.00	30-May-13	30-May-18	3,467,552.80	5,668,232.20
Liberia: Public Sector Modernization Project	2,000,000.00	10-Feb-14	30-Sep-19	34,985.01	1,873,984.99
Liberia Accelerated Electricity Expansion Project (LACEEP)	35,000,000.00	30-May-13	30-Jun-18	16,703,972.79	15,203,097.21
LR Smallholder Tree Crop Revitalization Support Project	15,000,000.00	5-Jun-12	30-Nov-18	5,050,199.82	8,176,235.18
WAPP APL4 (Phase 1) - Cote d'Ivoire, Sierra Leone, Liberia, and Guinea Power System Re-development	144,500,000.00	31-May-12	31-Oct-19	103,920,747.28	23,298,467.72
Liberia Integrated Public Financial Management Reform Project	5,000,000.00	15-Dec-11	30-Jun-17	21,217.22	4,342,142.78
Liberia Road Asset Management Project - LIBRAMP	50,000,000.00	20-Sep-12	30-Jun-22	27,045,734.44	17,951,415.56
Liberia Road Asset Management Project - LIBRAMP	67,700,000.00	7-Jun-11	30-Jun-22	19,250,288.11	39,518,716.89
Emergency Monrovia Urban Sanitation Project (EMUS)	4,000,000.00	7-Apr-11	30-Dec-16	0.00	3,545,230.00
West Africa Agricultural Productivity Program APL (WAAPP-1C)	6,000,000.00	24-Mar-11	31-Dec-16	0.00	5,317,845.00
LIBERIA Electricity System Enhancement Project (LESEP)	22,000,000.00	26-Jan-12	31-May-17	2,053,518.20	17,308,891.80
LIBERIA Electricity System Enhancement Project (LESEP)	10,000,000.00	30-Nov-10	31-May-17	190.08	8,862,884.92
LR-Urban and Rural Infrastructure Rehabilitation Project	19,600,000.00	24-Jan-14	30-Jun-17	920,270.18	16,533,169.82

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

IDA Disbursements and Debt Service (Since HIPC Completion Point)						
US$ Million	**Jul 2010–Jun 2011**	**Jul 2011–Jun 2012**	**Jul 2012-Jun 2013**	**Jul 2014-Jun 2015**	**Jul 2015 Jun 2016**	**Jul-Sep 2016**
Total disbursements	61.83	55.27	40.18	183.6	131.0	64.4
Repayments	0.33	0.00	0.00	0.00	0.00	0.00
Net disbursements	61.49	55.27	40.18	183.6	131.0	64.4
Interest and fees	0.05	0.12	0.25	0.79	0.96	0.34

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK[1]

(As of November 10, 2016)

There are 19 active AfDB projects in Liberia, in addition to projects funded by trust funds. The portfolio has a total commitment of approximately UA 273.86 million, equivalent to US$377.93 million, of which about 30 percent is disbursed. A brief description of these projects is provided below.

1. **Integrated Public Financial Management Reform Project (IPFMRP)**: The AfDB's UA 3.0 million grant support for this project was approved on September 10, 2012. Supported by four donors—the AfDB, World Bank, USAID, and SIDA—this US$28.55 million project represents an innovative approach for the Bank to support a comprehensive government program for PFM reform. By using a pooled funding arrangement, the project harmonizes support from the four donors, increasing development effectiveness while decreasing the administrative burden on the Government. The project has five components, which are mutually reinforcing: (i) enhancing budget planning and credibility; (ii) strengthening budget execution, accounting and reporting; (iii) strengthening revenue administration; (iv). Enhancing transparency and accountability; and (v) project management and capacity building. This support ends on March 31, 2017.

2. **Regional Payment Systems Development Project**: This UA 5 million supplementary grant enables Liberia to join the West Africa Monetary Zone (WAMZ) Payments System Development Project. The project aims to improve the financial sector basic infrastructure in the WAMZ region through the upgrade of the payments systems of The Gambia, Guinea, Sierra Leone, and Liberia. The project components include: Real Time Gross Settlement (RTGS) system; Retail Payments Automation (RPA), a clearing system comprising Automated Checks Processing (ACP); Automated Clearing House (ACH); Central Banking Applications (CBA) system; and telecommunication infrastructure. The project will increase participation in the formal financial sector and enhance financial flows at the regional level. This Project closes on December 31, 2016.

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

4. **Agriculture Sector Rehabilitation Project (ASRP)**: This UA 18.4 million project is financed by a UA 12.5 million grant from the Bank, UA 3.4 million grant from IFAD, and the balance funded in kind by the Government of Liberia. The project covers eight of the fifteen counties in Liberia. The goal of the ASRP is to contribute to food security and poverty reduction. Its specific objective is to

[1] Prepared by the African Development Bank.

increase the income of smallholder farmers and rural entrepreneurs including women on a sustainable basis. The project is implemented under three components: Agriculture Infrastructure Rehabilitation; Agricultural Production and Productivity Improvement; and Project Management, with Agriculture infrastructure constituting 60 percent of the cost. This support ends on December 31, 2016.

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

6. Maryland Oil Palm Plantation (MOPP)—Private Sector: The project is located in Maryland and Grand Kru Counties in South East Liberia and entails the following: (i) clearing, rejuvenating, and operating a 9,000 hectare abandoned palm oil plantation in Maryland county; (ii) developing two oil palms nurseries; (iii) establishing a 6,000 hectare out grower farmer scheme benefitting 750 families; and (iv) constructing an oil mill with a processing capacity of 90 tons of fresh fruit bunches per hour. The project cost totals USD 203.3 million with USD 164.9 million to finance the industrial component and USD 38.4 million for the out grower scheme. The Project has had implementation issues and there are on-going negotiations to cancel currently to cancel the loan.

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

8. Fostering Innovative Sanitation and Hygiene in Monrovia: The objective of the grant of Euro 1.2 million from the African Water Facility administered by the ADB is to increase access to sustainable and affordable sanitation services with improved hygiene and livelihood for Monrovia's urban poor. The specific objectives include: (a) increase access to safe, sustainable and affordable sanitation services; (b) reduce the vulnerability of the urban poor populace to WASH related diseases caused by water contamination; and (c) implement an effective, efficient and sustainable FS management system with production of affordable FS fertilizer to increase scalable food security. The grant ends in February 2017.

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

10. Mano River Union (MRU) Road Development and Transport Facilitation Program: The MRU Road Development and Transport Facilitation program will upgrade to bitumen standard 276.35 km of roads in eastern Guinea, West and South-West Côte d'Ivoire, and eastern Liberia. The Program will be executed from June 2015 to June 2019 for an estimated net total cost of UA 221.97 million. Liberia's portion, covering Karloken-Fish Town (80 km) and Harper-Cavalla junction (16 km), is a UA 76.88 million loan from ADF and TSF. The project will also include the construction of joint border control posts.

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

12. Ebola Response Projects: Between 2014 and 2015, the AfDB prepared various multinational projects in response to the Ebola Virus Disease (EVD). While a number closed, the following are still on-going:

a. **Ebola Fight Back Budget Support Program**: This is a UA 100.2 million multinational program across Côte d'Ivoire, Guinea, Liberia and Sierra Leone, of which Liberia's portion is a UA 40.2 million loan. The operation contributes towards addressing the fiscal gap created by the epidemic in the countries, supporting measures to respond to the crisis, and the need to address longer term issues to develop economic resilience. This support ends in December 2016.

b. **Strengthening West Africa Public Health Systems (SWAPHS)**: This UA 40 million multinational project, of which a USD 11.4 million grant is directly allocated to Liberia, is intended to achieve three broad strategic outcomes: building human resource capacity and systems for emergency response and preparedness, infrastructure development, and strengthening governance and regional institutions.

c. **Post Ebola Recovery Social Investment Fund (PERSIF)** (UA 2 million grant): This program is providing seed funding to establish a Social Investment Fund to finance demand-driven, small-scale activities on the basis of calls for proposals issued by the Fund. It is expected to play a catalytic role in improving community response to outbreaks, thereby contributing to inclusive growth, gender equality and poverty reduction in the three affected countries.

13. Technical Assistance from Fragile States Facility and other Trust Funds:

a. **Promoting local, participatory governance for County Development Funds**: UA 114,833 grant to minimize corruption and ensure effective delivery of development initiatives in the 15 counties of Liberia by: (i) increasing the public's awareness of the two major funds—County Development and Social Development Funds—allocated for development in the counties; (ii) building the capacity of 750 youths to engage decision makers and managers of the funds; and (iii) actively participating in the planning, monitoring, and reporting on the funds.

b. **Capacity Building and Technical Support to the National Housing Authority**: UA 240,000 grant to develop capacity for architects, engineers, draftsmen and surveyors to oversee effectively the design and implementation of housing projects. The capacity building will also improve internal functions like budgeting, monitoring, procurement and financial reporting and IT system

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

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

14. Program of Assistance to Trade Support Institutions in Liberia (PATSIL): This UA 658,735 project focuses on human capacity building by improving the human resource capacity of key trade support institutions to analyze and enhance policy framework of the trade sector, formulate and implement trade policies, improve institutional productivity and performance of the Ministry of Commerce and Industry and National Ports Authority through provision of logistical support.

STATISTICAL ISSUES

(As of September 30, 2016)

I. Assessment of Data Adequacy for Surveillance
General: Data have serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in the areas of national accounts, government finance, and balance of payments statistics.
National Accounts: Comprehensive national accounts data are not available. Fund staff estimate 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 2008-2013 presented serious inconsistencies. The AFRITAC West 2 and STA experts have made final adjustments to GDP figures to be released in the near future for the period 2008–13. AFRITAC West 2 experts are now providing assistance to LISGIS in compiling estimates for 2014 and 2015. Shortcomings remain with the underlying NAAS 2012 data so it has been strongly recommended that an Economic Census be conducted with respect to 2016. This undertaking will be strongly supported by both AFRITAC West 2 and the World Bank. A full 12-month Household Income and Expenditure Survey (HIES) was started in January 2016. The data collected to date have been processed and will be used in developing preliminary estimates of household final consumption expenditure (HFCE).
Price Statistics: Currently, the LISGIS produces a CPI with December 2005 as the base year. Prices are collected only in Monrovia, and the weights were last updated in 2006, based on data from neighboring countries. The AFRITAC West 2 and the EDDI[1] 2 projects are assisting the LISGIS to introduce a new market basket and weights based on the six month 2014 HIES. A December TA mission, the third during 2016, will assist the LISGIS in finalizing and disseminating an updated CPI from the January 2017 CPI release onwards. 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 an Economic Census be conducted with respect to the year 2016 with the results becoming available during 2018.

[1] Enhanced Data Dissemination Initiative (EDDI) phase 2 funded by the UK Department for International Development-supported.

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 the area of 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. A compilation sheet was also developed for the authorities to facilitate reporting of GFS data on an ongoing basis and provided hands-on training to more than 50 staff. The mission found that strengthening the recording of cash expenditure would greatly contribute to the quality of fiscal reports. The authorities expressed willingness to improve cash expenditure recording and implement data sharing agreements between the Comptroller and Accountant General's Office and other fiscal reporting units, with particular focus on actual expenditure data. The authorities also plan to initiate expenditure data collection for aid-financed projects and will address the issue at the next stakeholder meeting with donors and Project Implementation units.
Monetary and Financial Statistics (MFS): Liberia does not submit monetary data 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 period is May 2016. STA provided technical assistance to the Central Bank of Liberia (CBL) in April 2013, to help the CBL compile MFS data using the SRFs. However, the introduction of SRFs has yet to materialize.
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. In this project, the CBL has developed FSIs for deposit takers but these have so far not been sent to STA or released for publication. At the same time, the CBL submits some supervisory ratios to AFR on a bilateral basis for bilateral surveillance purposes.
External sector statistics: The CBL has improved the ESS, but they are not yet adequate for surveillance. In August 2015, the CBL developed a three-year work plan to address the issues on ESS and to improve data quality especially for coverage and accuracy. Balance of payments statistics are compiled quarterly since August 2016 on a *BPM6* basis and. Since early 2016 enterprise surveys have been conducted more efficiently and comprehensively. The International Investment Position (IIP) is not compiled. Several areas need improvement, particularly with regard to primary source data, methodology, compilation practices, and frequency and timeliness in data dissemination. Coverage needs to be improved in current, capital (development aid, remittances, investment income) and financial accounts (direct investment, portfolio investment, and other investment including USD cash in circulation).

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

III. Reporting to STA
The authorities report quarterly balance of payments data 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]	**Memo Items:**	
						Data Quality – Methodological Soundness	**Data Quality – Accuracy and Reliability**
Exchange Rates	8/31/2016	10/24/2016	D	M	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	8/2015	10/24/2016	M	M	Q		
Reserve/Base Money	8/2015	10/24/2016	M	M	Q		
Broad Money	8/2015	10/24/2016	M	M	Q		
Central Bank Balance Sheet	8/2015	10/24/2016	M	M	Q		
Consolidated Balance Sheet of the Banking System	8/2015	10/24/2016	M	M	Q		
Interest Rates[2]	8/2015	10/24/2016	M	M	Q		
Consumer Price Index	8/2015	10/24/2016	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	9/2015	10/22/2015	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	9/2015	10/22/2015	M	M	Q		

Liberia: Table of Common Indicators Required for Surveillance (concluded)							
	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:	
						Data Quality – Methodological Soundness	Data Quality – Accuracy and Reliability
External Current Account Balance	8/2015	10/24/2016	M	M	Q		
Exports and Imports of Goods and Services	8/2015	10/24/2016	M	M	Q		
GDP/GNP	2008	3/1/2011	A	I	I		
Gross External Debt	9/2015	10/22/2015	M	M	Q		
International Investment Position[6]	NA	NA	NA	NA	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

December 13, 2016

FIFTH AND SIXTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AUGMENTATION OF ACCESS, AND EXTENSION OF THE ARRANGEMENT—SUPPLEMENTARY INFORMATION

Approved By **David Owen and Daria Zakharova**

Prepared by The African Department

1. **This supplement provides an update on the authorities' prior actions**. The prior action to compile and develop a database of domestically-financed projects from the Ministry of Finance and Development Planning was observed. However, the prior action relating to the interim report of the forensic audit of First International Bank of Liberia Limited (FIBLL) was not observed. The CBL submitted an interim report, prepared by an internationally reputable audit firm, which outlines a work plan and a schedule for key deliverables, and describes the challenges in terms of availability of documentation. However, in staff's views, the interim report does not detail preliminary findings of the forensic audit in line with paragraph 47 of the MEFP. This is in part because, with a delayed start to the process, there was insufficient time to reach substantive findings.

2. **Despite the prior action not being met, staff supports the completion of the 5th and 6th reviews of the Extended Credit Facility**. In this regard, staff notes that the audit firm initially encountered unforeseen obstacles in obtaining documentation and access to previous Board members and staff. Nevertheless, the forensic audit process is now well underway and staff will closely monitor the progress of the audit, which is supported by a detailed work plan with bi-weekly and monthly milestones including the submission of a second interim report detailing preliminary findings to the CBL by end-January 2017. Staff notes that the authorities are committed to full cooperation with the auditor to ensure on-time implementation of the audit plan. Against this background, the absence of substantive preliminary findings does not undermine the program objectives. The completion of the forensic audit and the sharing of final results with staff by end-May 2017, which is a structural benchmark for the next review, remain feasible.

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

December 16, 2016

Our Liberian authorities would like to thank staff for the candid and productive discussions held during the 5th and 6th Reviews under the Extended Credit Facility (ECF) arrangement. They are broadly in agreement with staff's assessment of the current state of the Liberian economy and believe that the ECF arrangement provides critical support toward the achievement of the country's macroeconomic fundamentals so as to promote sustainable growth and development in the medium-term. They consider the ECF arrangement to be supportive of the implementation of the government's development plan, the Agenda for Transformation (2012–17), which aims at fostering economic transformation, human capital development, governance, peace and security, and the rule of law.

The emergence of the Ebola Virus Disease (EVD) in 2014, within the Mano River Union sub-region, came at a heavy cost to human lives and the economy as a whole. During that period, development assistance was frontloaded by partners. Since then, however, there has been a marked decline in donor support, resulting in a protracted period of difficult adjustments.

Amidst harsh global economic conditions, the authorities are committed to instituting an appropriate mix of policy responses to address the economic and social challenges that they face. Nevertheless, they require the Fund's support to finance both their budget gap and balance of payment needs. In this regard, and on account of the strong corrective measures that have been put in place, the authorities request waivers of nonobservance of performance criteria for the completion of the 5th and 6th reviews; and augmentation of access of 10.7 percent of quota, of which 5 percent of quota would be directed to the government budget FY2016–17 and the balance of 5.7 percent towards financing the balance of payment gap. In addition, our authorities seek extension of the program to November 2017 to assist with maintaining macroeconomic stability, filling balance of payments gap, and support further implementation of reforms.

Program Performance

Program performance has been mixed in recent months largely due to slow recovery. While all indicative targets (ITs) for end-December 2015 were met, two performance criteria (PCs) for the same period were missed. By end June 2016, three PCs were missed, namely: floors on government revenue and net foreign exchange reserves position of the Central Bank of Liberia (CBL), and the ceiling on CBL's gross direct credit to the central government. The PCs were missed due to low revenue collections, particularly from mining companies. Lower government sales of foreign exchange to the

CBL limited private sector access to foreign exchange and the CBL had to provide liquidity support to the financial sector. To correct this situation, the CBL is vigorously implementing a three-year financial plan and has also moderated its intervention in the foreign exchange market. Further, the Liberian authorities have put in place other corrective measures to improve outcomes under the program, some of which build on the Fund's technical assistance. In particular, the FY2017 budget includes a sizeable revenue package, which has been complemented by additional measures introduced in November 2016. The authorities are implementing measures to reform revenue administration to enhance tax compliance and build capacity for the Liberia Revenue Authority (LRA), with support from the Fund and other donors. The Ministry of Finance and Development Planning (MFDP) has announced a plan to cut spending on non-priority expenditures, including fuel and foreign travel, and limiting spending to incomplete public investment projects. In addition, there is a moratorium on hiring.

Regarding structural benchmarks (SBs), two out of nine for the 5th review were met, while three were completed with delays. On the other hand, four out of five SBs for the sixth review were met. Some of the SBs were missed on account of capacity and institutional gaps, which are currently being addressed by the authorities through the re-structuring of the Aid Management Unit in MFDP, strengthening of the procurement capacity in ministries and agencies, development of a crisis management framework by the CBL, and infrastructure upgrades, among others.

The authorities note the concerns raised by staff regarding risks to the program. In this regard, a number of measures have been put in place. For instance, the Ministry of Health is implementing a robust EVD surveillance system and developing the capacity of personnel to respond to future health emergencies. In addition, health protocols at border points and airports remain in place to deal with possible re-emergence of EVD. Moreover, the authorities continue to engage with development partners on budget support for health. With the assistance of development partners, security personnel have been trained to deal with security challenges during the elections. While the authorities are reasonably confident of steps taken to improve revenue and contain spending, including through additional sur-charges on domestic calls, taxes on tobacco and other luxury items, increase in general sales tax (GST), new fuel storage charges, in additional to the introduction of the new spending cuts on non-priority items and the restricting spending to incomplete projects, the dependence on mining remains a risk. In this regard, the authorities' medium term plans increasingly focus on economic diversification, including boosting agricultural production to improve food security

Recent Economic Developments and Macroeconomic Outlook

Economic recovery is taking longer than expected due to the residual effects of the EVD and lower commodity prices. Liberia's growth model which has relied over the years on the extractive industry, particularly rubber and iron ore coupled with high importation regime for its staple commodities, has exposed the economy to exogenous shocks. Growth for 2016 is expected to be -0.5 percent, down from an earlier projection of 2.5 percent, driven by a decline in the forestry sector (-0.7 percent), further deterioration in the mining and panning sector (-23.8 percent), and the manufacturing sector (-4.9 percent).

The authorities expect annual growth to rebound to 3.2 percent in 2017, driven mainly by expansions in both gold production and the agriculture sector. In 2016, agriculture and fisheries expanded by 6.4 percent, up from 0.7 percent. The agriculture sector draws support through the Liberia Agriculture Transformation Agenda (LATA). Another positive prospect is the current oil exploration efforts by a major US company, which commenced in mid-November 2016. In an effort to boost reserve accumulation in line with the program, the CBL has limited its intervention in the market to smooth out exchange rate volatility. Average inflation for the year is estimated at 8.6 percent.

Fiscal Policy, Debt Management and Public Financial Management

To mitigate the impact of shrinking revenues and spending pressures related to the approaching elections, the authorities are focused on implementing the recently-approved policy measures to generate additional revenue and tighten controls of recurrent costs, while protecting social spending. These measures are *sine qua non* to bring the fiscal position in line with program targets. The tight fiscal stance will continue through 2018.

The draft of the next generation public financial management action plan (2017–20), which incorporates actions to address weaknesses in the areas of public investment management, accountability, and fiscal decentralization, has been concluded and shared with stakeholders. Further, the authorities are developing a strategy for the full roll-out of a Treasury Single Account (TSA), with the objective of pulling all resources of the government for efficiency gains. The government is also committed to strengthening the monitoring of State-Owned Enterprises (SoEs). In furtherance of this objective, there is regular reporting on SOEs' finances, and the reporting coverage has improved from eight (8) to thirteen (13) SoEs.

Weaknesses in exports and the economic downturn have impeded the government's ability to contract loans for investment in much needed infrastructure without pushing debt levels to the margins of distress. However, debt levels remain moderate under staff baseline scenario. The authorities reiterate their commitment to keep debt levels on a sustainable path by limiting loan contracting to debt-financing projects over the medium-term. The strategy embraces a new focus on grants and concessional financing for investment in growth-enhancing infrastructure, taking into consideration the impact of investment on growth that would help sustain the debt levels.

Monetary Policy

Monetary policy is well anchored in price and exchange rate stability. The CBL has adhered to the implementation of its three-year financial plan (2015–17), thereby strengthening its reserve position, as envisaged under the program. It has also limited its intervention in the foreign exchange market to smooth out exchange rate volatility. However, the effectiveness of monetary policy operations has been impeded by the high dollarization of the economy. In this regard, the authorities intend to take a gradual market approach to de-dollarization, beginning with transactional de-dollarization followed by financial de-dollarization. To attain this objective, Liberian dollars component of civil servants' salaries have been increased, more tax payments are being accepted in Liberian dollars, and more vendor payments are also being made in local currency.

Financial Sector Policy

While the banking system remains capitalized and liquid, the financial sector is shallow and risks are elevated from high non-performing loans (NPLs) and low profitability. To facilitate credit growth to the private sector and retain confidence within the banking system, the CBL is implementing a strategy to reduce NPLs. This includes reinforced mandatory write-offs in the operations of affected banks, restructuring and other high frequency recovery methods. This strategy has significantly reduced the share of NPLs from 19.2 percent in August 2015 to 13.5 percent as at August 2016.

The authorities have resolved the issue surrounding a failed bank. At the conclusion of an appropriate risk-based due diligence by the CBL, a foreign private equity group took over the entity, under a purchase and assumption transaction. In the meantime, measures have been implemented to closely supervise the nascent bank, through high frequency monitoring of its financial position. Further, the CBL has commissioned a forensic audit of the failed bank and has already shared the preliminary report with the Fund.

The CBL is working closely with the Fund to develop procedures for an emergency liquidity assistance (ELA) framework and a deposit insurance scheme, among other actions, to strengthen the financial sector. Further, the National Legislature has passed two important legislations adopting the Securities Market and the Central Securities Depository.

The withdrawal of corresponding banking relationships continues to pose serious challenges to trade finance, flow of remittances and financial inclusion. To address gaps within the current AML/CFT Framework, a dedicated unit has been set up at the central bank. The CBL is leading engagements with parent jurisdictions of respondent banks, as well as providing a solid voice at international conferences for action to be taken by global financial institutions. The CBL has also increased its participation in work of the Financial Action Task Force (FATF).

In November 2016, the CBL launched a Financial Sector Development Implementation Plan (FSDIP) to provide a coherent and sequenced strategy to broaden and deepen the financial sector. Being complementary to other ongoing efforts, the Plan will focus on areas of financial inclusion, access to finance, and the strengthening of regulation and supervision with the view of contributing to economic growth. In addition, infrastructure still represents a major impediment to the expansion of financial services. Investments are underway to modernize and introduce new banking products as well as modernize the banking infrastructure to enhance reporting.

Structural Reforms

On the structural front, the authorities are implementing a number of concrete actions to improve the business climate, including the simplification of business registration procedures and the establishment of one stop shop at customs. In addition, Liberia assented to the World Trade Organization (WTO) on July 14, 2016. The Mo Ibrahim Report for 2016 recognizes Liberia amongst the top most improved countries on the “Overall Governance” index. A new petroleum law has been enacted consistent with global standards to promote open and accountable management of potential oil and gas reserves. Also, new VAT bill is under preparation for its eventual implementation in 2018, while the current revenue code is being reviewed to provide harmonization and subsequent implementation of Common External Tariff (CET). The public procurement authority has now standardized procurement contracts. Further, the increase in output from the electricity grid by year’s end will reduce constraints to production.

Conclusion

Although Liberia is emerging out of fragility, there are still lagging post-Ebola effects that permeated the core of the society. In addition, the recovery process has been delayed by the persistent impact of the commodity price decline. Despite these challenges, the authorities registered positive performance in implementing their economic program and remain committed to strong macroeconomic policies to restore confidence and achieve robust economic recovery. The progress made so far has benefited from initiatives supported by the arrangement under the ECF. In this regard, the authorities look forward to the Board’s approval of its extension.