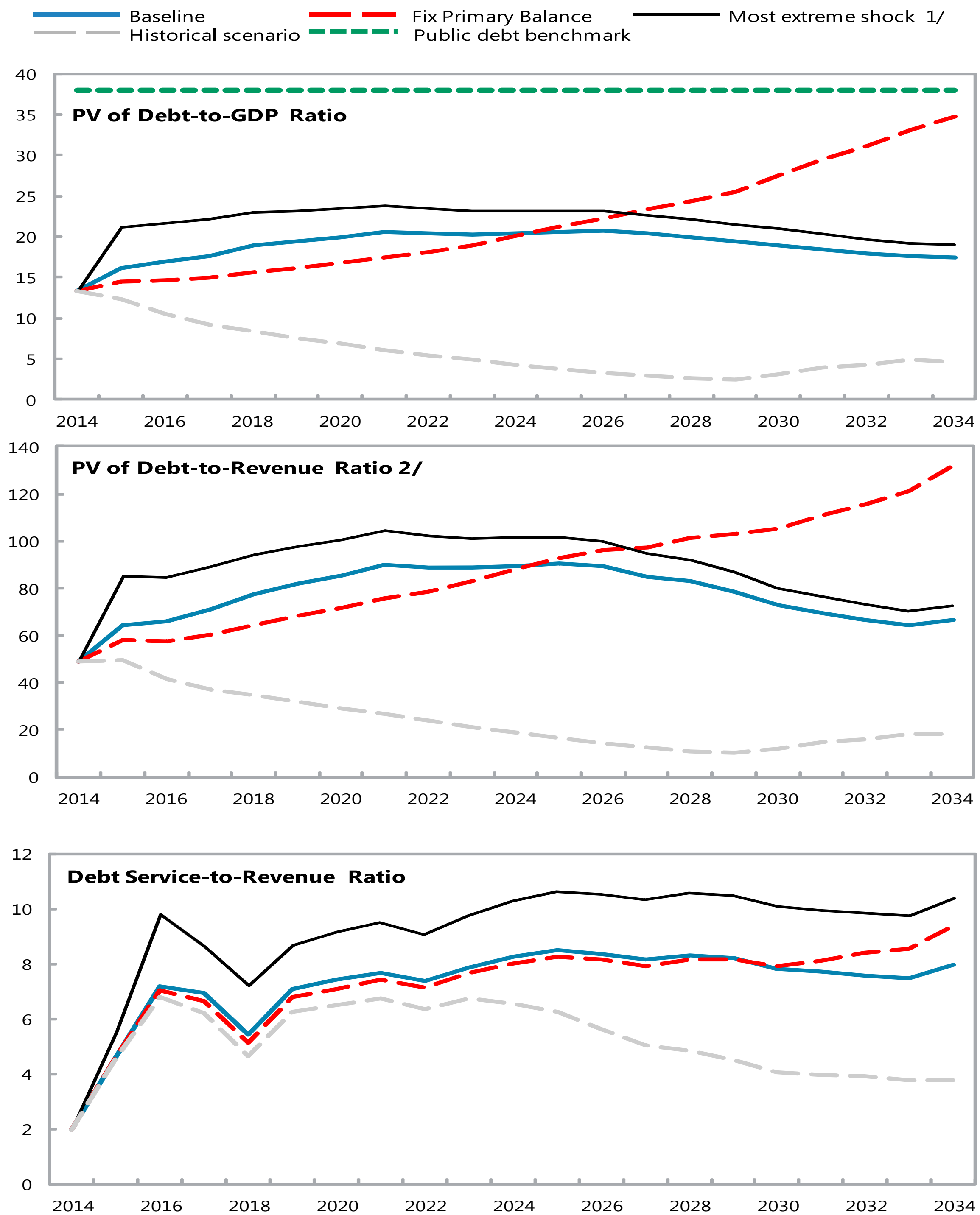
**Figure 6. Liberia: Indicators of Public Debt Under Alternatives Scenarios (DSA for the 3rd ECF Review in June 2014), 2014–34[1/]**




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 2024.
2/ Revenues are defined inclusive of grants.

**Statement by Chileshe Mpundu Kapwepwe, Executive Director for Liberia and Tharcisse Yamuremye, Advisor to Executive Director**
**December 21, 2015**

## Introduction

My authorities thank the Executive Board, Management and Staff for their continued support to Liberia especially during the Ebola outbreak. As a result of the large–scale international response to the crisis and the authorities' efforts to implement policy measures aimed at getting to and maintaining zero new infection, the World Health Organization (WHO) on September 3, 2015 declared the country Ebola-free. However, the long lasting effects of the Ebola crisis on economic and social development require significant resources to boost economic activity and strengthen health and social protection system. In this regard, the authorities are implementing the Economic Stabilization and Recovery Plan (ESRP) to guide the economy back to the path set by medium term development program, namely, Agenda for Transformation (AfT).

The authorities welcome the fourth review of the ECF which had been delayed by the Ebola crisis. In spite of difficult environment, some progress has been made in the implementation of the program. In addition, the authorities are implementing corrective measures to improve program performance. Consequently, the authorities request the Executive Board to support the completion of Fourth review under the ECF arrangement. They are also requesting for waiver of nonobservance of performance criteria, modification of performance criteria, and rephrasing and extension of the arrangement to end-December 2016.

## Recent Economic Development and Outlook

The Liberian economy was hit by a second shock related to the decline of commodity prices. Economic recovery is now taking hold, albeit at a slow pace. Real GDP growth stood at 0.7 percent in 2014 while 2015 real GDP growth is projected to average 0.3 percent, driven mainly by services amidst the decline in commodities exporting sectors, especially iron ore and rubber. However, despite the difficult macroeconomic outlook, the momentum in the development of services and resumption of gold extraction is expected to accelerate economic growth to around 3.9 percent in 2016. As confidence improves, growth is projected to average around 4.9 percent in 2016 - 2018. However, the authorities are aware of material downside risks related to a protracted weakness in global commodity prices would contribute to further decline in exports, tax revenue and production in the mining sector.

In the context of lower international rice and oil prices, along with small currency depreciation due to the CBL's foreign exchange market interventions, inflation declined from 13.5 percent in September 2014 to 6.5 percent in September 2015. Inflation is expected to remain in single digits at about 8 percent in 2015 – 2016, and decline to about 7.1 percent in 2018.

The current account deficit widened from about 28 percent of GDP in 2013 to 31 percent in 2014 due to the significant decline in exports which was partially offset by higher Ebola related current transfers. As the commodities prices continue to decline, the current account deficit is projected to further widen to 39 percent of GDP in 2015 due to the drop in the value of iron ore and rubber exports. Gross international reserves dropped from US$411 million at end 2014 to US$394 million in September 2015 which covers 2.1 months of total imports. The current account deficit is projected to improve slightly from 36.9 percent of GDP in 2016 to 32.7 percent of GDP in 2018.

**Program Performance**

In spite of the difficult environment related to the Ebola crisis, most end-June 2014 performance criteria (PCs) and indicative targets (ITs) required for fourth review were met, except the revenue floor (PC) owing to shortfalls in tax and non–tax collection, the floor on net foreign exchange position of the CBL (PC), and the ceiling on net domestic assets (NDA) (IT), missed with a small margin.

Constrained by a limited functioning of public services, the implementation of structural benchmarks was difficult. Nevertheless, the authorities made some progress. Indeed, three out of seven structural benchmarks for end-March and end-June 2014 including payroll cleanup, publication of FY2016 budget calendar, and pilot on integration of credit financed projects into Integrated Financial Management Information System (IFMIS) were met. Some indicative targets including non–concessional borrowing and accumulation of external arrears for end-December 2014 were met.

The program performance was broadly disrupted by the Ebola crisis. Going forward, the authorities are committed to implement structural reforms. In this regard, they are ready to implement a number of structural reforms including improving cash management and rolling out the IFMIS to 17 additional spending entities.

**Fiscal Policy**

The authorities intend to maintain accommodative fiscal policy stance to alleviate Ebola and commodities prices shocks while safeguarding macroeconomic stability. In this regard, public spending will be allocated towards the post Ebola recovery plan to support key priorities including health and education, infrastructure, agriculture and private sector. To streamline public spending, the authorities also aim to strengthen the procurement system and address deficiencies in spending controls highlighted in GAC audit report published in June 2015.

Given the importance of the commodity exporting sector, the authorities continue to engage with the relevant investors in the sector to safeguard their investments. The authorities are committed to compensate revenues shortfalls or undertake expenditure cuts as required. To increase revenue mobilization, the authorities recognize the need to strengthen the capacity of Liberian Revenue Authority (LRA), and enhance tax administration.

The authorities are committed to continue to implement Public Financial Management (PFM) reforms to improve budget credibility, financial accountability, transparency and reporting.

To this end, several measures are required, including the preparation of the Medium–Term Expenditure Framework (MTEF) budgeting, strengthening IT system to support PFM operations, and improve the management of Treasury Single Account. In addition, the authorities will continue to improve the quality of spending by enhancing public investment planning and execution.

**Monetary and Financial Sector Policies**

The CBL will continue to implement monetary and exchange rate policies to anchor inflation expectations. In this regard the CBL will continue efforts to strengthen liquidity management of the Liberian - dollar and intends to continue intervening in the foreign exchange market to smooth exchange rate volatility, while maintaining flexibility. To increase international reserves and cope with external vulnerabilities, the CBL will implement measures including strengthening the operational efficiency through prudent budget and update the investment guidelines to improve safety and liquidity of the international reserves.

The CBL is developing a broad framework to strengthen financial stability. To alleviate the impact of the Ebola crisis, the CBL adopted exceptional measures including specific regulations to reduce provisioning burdens on NPLs associated with the Ebola crisis, extending repayment periods on loans related to CBL's stimulus initiative, and paying off the outstanding loan obligations in Liberian dollars of all private schools to banks. The CBL plans to phase out the measures by end-December 2015. In addition, the Central Bank will continue to strengthen financial sector by improving oversight credit risk management, developing a crisis preparedness and management framework, and strengthening financial sector regulation.

**Debt Management**

Liberia's risk of external debt distress has increased from low to moderate. The deterioration of the external debt is mostly due to the double shocks stemming from the Ebola crisis and the sharp decline in commodity prices. The shift to a moderate risk rating introduces changes on external borrowing targets under the new debt limits policy. To implement the new debt limits policy, the authorities will strike a balance between debt vulnerabilities and development needs. In this regard, they are reviewing the current medium–term debt strategy. In addition, the authorities will continue to prioritize grants and focus on priority projects financed by highly concessional loans.

**Structural Reforms**

The authorities are implementing the Economic Stabilization and Recovery Plan (ESRP) to mitigate the post Ebola shocks and lay a foundation for sustainable economic growth and poverty reduction. The main goals of the Economic stabilization and recovery plan are threefold: increasing output and growth, strengthening resilience and reducing vulnerability, and strengthening public finance. To boost economic growth and increase job creation while reducing vulnerabilities, priorities are focused on agriculture, infrastructure, health and education. The authorities will continue to improve business climate to develop private sector and spur economic diversification.

**Conclusion**