IMF Country Reports 16/238

LIBERIA: 2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBERIA

INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/238

LIBERIA

July 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBERIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Liberia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 8, 2016 consideration of the staff report that concluded the Article IV consultation with Liberia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 8, 2016, following discussions that ended on May 4, 2016, with the officials of Liberia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 22, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Liberia.

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

Selected Issues

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COMMUNICATIONS DEPARTMENT

Press Release No. 16/334
FOR IMMEDIATE RELEASE
July 12, 2016

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700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation with Liberia

On July 8, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Liberia.

The Ebola epidemic and the fall in commodity prices revealed the vulnerabilities of Liberia's economy. After barely positive growth in 2014, GDP was flat in 2015 mainly due to the decline in activity in the iron ore and rubber sectors. The current account deficit deteriorated, reflecting weaker exports receipts and the Ebola-related surge in imports. While international gross reserves increased last year, the Central Bank of Liberia's net foreign exchange position declined due to operational deficits and exceptional support to the banking sector, under stress from the Ebola epidemic. Lower revenue from the natural resource sectors and higher Ebola-related spending, largely financed by donor support, pushed the FY2015 overall government deficit to 8.4 percent of GDP. The FY2016 deficit is estimated to have declined to 7 percent of GDP as continued revenue weakness forced the government to contain spending.

In 2016, growth is expected to rise to 2.5 percent, thanks to a rebound in services and the start of gold production, while inflation should stay in the single digits. The overall government deficit is projected to remain broadly constant, thanks to strong fiscal measures to address lower natural resource revenues, declining external budget support, the cost of the 2017 elections, and the take-over of security from UNMIL.

Over the medium term, economic growth is expected to increase to 5.5 percent on average, due to a recovery in mining, improvement in infrastructure, particularly energy and roads, and higher agricultural productivity. The fiscal position should improve, thanks to the authorities' commitment to improve domestic revenue mobilization and contain spending. Resolution of the

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

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backlog of non-performing loans and improving bank profitability could support economic growth through higher credit, especially for small- and medium-size enterprises (SMEs).

The main risks to the outlook include a stronger-than-anticipated effect of the commodity price decline, the worsening of security conditions, and a large scale re-emergence of the Ebola virus. Policy slippages also could weigh on medium-term growth.

Executive Board Assessment[2]

Executive Directors noted that the commodity price shock hit the Liberian economy just when it started to recover from the Ebola outbreak. Directors observed that, while growth should recover in the coming years, the outlook faces downside risks, including a stronger-than-expected commodity price impact, a possible reemergence of the Ebola epidemic, and a deterioration in security conditions. Directors commended the authorities' measures to tackle the aforementioned shocks. They underscored the importance of continued sound macroeconomic policies, and the stepping up of structural reforms to boost growth, enhance the economy's resilience and reduce its dependence on natural resources.

Directors commended the authorities for the ambitious measures embedded in the draft FY2017 budget. They agreed that the domestic revenue mobilization measures would help mitigate the revenue shortfall from lower activity in the natural resource sector and from the post-Ebola decline in external budget assistance. At the same time, Directors welcomed that the containment of expenditure still secures essential social spending such as on health and education. Directors recommended the further deepening of the revenue base while increasing its fairness. They also called on the authorities to continue strengthening public financial management. Directors noted that fiscal policy would benefit from a longer-term orientation, and encouraged the authorities to consider a medium-term fiscal anchor to improve policy predictability and transparency. They called for strengthening the medium-term debt strategy to prevent a further increase in the risk of debt distress.

Directors encouraged the authorities to boost external buffers. In order to build up adequate international reserves, the Central Bank of Liberia needs to rigorously implement its agreed three-year financial plan, phase out exceptional support to the banking sector, and limit foreign exchange interventions to volatility smoothing. Directors stressed the importance of enhancing the central bank's independence and its coordination with the fiscal authorities in order to strengthen liquidity management. Given the constraints posed by the dual currency system, they also agreed that, in the long run, a gradual process of de-dollarization would increase the space of monetary policy.

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

Directors called on the authorities to address financial sector vulnerabilities, notably by strengthening bank supervision and establishing a bank emergency assistance framework. While recognizing that the loss of correspondent banking relationships is a global issue, they recommended reinforcing frameworks for tax transparency and anti-money laundering and combating the financing of terrorism.

Directors stressed the importance of improving economic resilience. In this regard, strengthening the business environment could help diversify the economy by supporting private sector development. Improving financial inclusion would be another channel to support economic growth and diversification.

Liberia: Selected Economic Indicators

	2014	2015	2016	2017	2018	2019	2020	2021
	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change unless otherwise indicated)								
GDP and Price								
Real GDP	0.7	0.0	2.5	4.7	5.2	5.7	6.0	6.5
Real GDP excluding mining sector	0.3	2.6	4.3	4.1	5.7	6.1	5.3	5.4
Nominal non-mining per capita GDP (U.S. dollars)	438	452	471	496	534	574	611	714
Nominal GDP (millions of U.S. dollars)	2012	2035	2138	2289	2512	2767	3025	3249
Consumer prices (annual average)	9.9	7.7	8.4	8.3	7.7	7.1	7.1	7.5
(Percent of GDP, fiscal year)								
Central government operations[1]								
Total revenue and grants	27.4	32.5	32.1	30.3	27.1	27.5	27.6	27.6
Total revenue	23.5	22.5	20.5	23.6	23.8	24.5	24.7	24.8
Grants, including Ebola-related support	3.9	10.0	11.7	6.7	3.2	2.9	2.9	2.8
Total expenditure and net lending	29.3	40.9	39.2	37.0	33.4	31.9	31.7	31.4
Current expenditure	24.3	32.0	28.4	27.3	25.5	23.4	22.8	22.3
Capital expenditure	5.0	8.8	10.8	9.7	8.0	8.5	8.9	9.1
Overall fiscal balance, including grants	-1.9	-8.4	-7.0	-6.8	-6.3	-4.4	-4.1	-3.8
Overall fiscal balance, excluding grants	-5.8	-18.4	-18.7	-13.5	-9.6	-7.4	-6.9	-6.6
Public external debt	13.2	23.0	28.2	32.3	35.9	37.5	38.2	38.5
Central government domestic debt	14.1	14.6	13.0	12.1	10.2	8.8	7.5	6.9
(Percent, unless otherwise indicated)								
M2/GDP	34.6	34.8	33.6	33.3	32.7	32.2	31.6	31.2
Credit to private sector (percent of GDP)	18.8	20.1	21.1	21.5	21.8	22.0	22.4	23.5
Credit to private sector (annual percent change)	5.6	8.1	10.3	9.4	10.8	11.2	11.5	12.7
(Percent of GDP, unless otherwise indicated)								
External sector								
Current account balance								
including grants	-32.5	-33.6	-31.3	-27.7	-26.6	-26.6	-26.5	-27.0
excluding grants	-95.1	-88.8	-76.6	-54.1	-51.0	-49.1	-47.4	-44.7
Trade balance	-37.0	-46.0	-41.1	-34.1	-30.6	-31.6	-27.0	-24.9
Exports	24.0	13.1	12.4	12.2	11.8	11.6	12.2	13.5
Imports	-61.0	-59.1	-53.6	-46.3	-42.4	-43.2	-39.2	-38.3
Grants (donor transfers, net)	62.6	55.2	45.3	26.4	24.4	22.5	20.9	17.7
Gross official reserves (millions of U.S. dollars)	411	446	457	509	581	638	688	748
Months of imports of goods and services[2]	2.4	2.6	2.7	3.0	3.3	3.5	3.6	3.7
CBL's net foreign exchange position[3]	178.6	164.4	189.1	227.0	302.2	373.1	433.4	493.3

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

[1] Including major off-budget items, such as Mt. Coffee project. 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.

INTERNATIONAL MONETARY FUND

LIBERIA

June 22, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

EXECUTIVE SUMMARY

Context: The Article IV discussions focused on policies to support resilience and growth on the background of a double shock hitting the Liberian economy. Just when the country was finally recovering from the Ebola epidemic, the decline in commodity prices, combined with The Article IV discussions focused on policies to support resilience and growth on the background of a double shock hitting the Liberian economy. Just when the country was finally recovering from the Ebola epidemic, the decline in commodity prices, combined with

Outlook and risks: Liberia faces the challenge of balancing pressures from weaker export receipts and falling external support with the continued need for spending on physical infrastructure, human capital accumulation, and poverty alleviation. The main risks to the outlook relate to a stronger-than-anticipated effect of the commodity price decline, the worsening of security conditions after UNMIL withdrawal, and a large-scale re-emergence of Ebola. Policy slippages also could weigh on medium-term growth.

Key policy recommendations:

- Expand revenue mobilization efforts, and streamline current spending while preserving key expenditures including health and education;
- Strengthen public financial management, including investment planning and execution and consider adopting a fiscal anchor to support fiscal sustainability;
- Limit external debt growth by carefully selecting new projects, prioritizing grants and concessional financing, and developing a medium-term borrowing strategy;
- Rebuild external buffers by implementing the Central Bank of Liberia medium-term operational budget and allowing more exchange rate flexibility;
- Increase financial sector resilience by strengthening bank supervision, establishing an emergency assistance framework, and addressing AML/CFT shortcomings;
- Promote economic diversification by improving the business environment, exploring horizontal and vertical export diversification, and strengthening financial inclusion.

Approved By
Abebe Aemro Selassie (AFR) and Chris Lane (SPR)

Discussions were held in Monrovia (April 20–May 4, 2016). The mission comprised Mr. Sdralevich (head), Messrs. Chawani and Oshima (AFR), Mr. Anayiotos (MCM), Ms. Oeking (FIN), Ms. Xu (SPR), Mr. Amo-Yartey, resident representative, and Mr. Deline, local economist, assisted the mission. Ms. Gasasira-Manzi (OED) attended the policy meetings. Mr. Graham (World Bank) participated in several mission meetings. The mission met with President Johnson Sirleaf; Minister of Finance and Development Planning Konneh; Acting Central Bank Governor Sirleaf; other senior officials; representatives of the private sector; civil society representatives ; and development partners.

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ANNEXES

AN ECONOMY HIT BY A DOUBLE SHOCK

A. Context

1. **The Ebola epidemic and the fall in commodity prices have laid bare the vulnerabilities of Liberia's economy**. The economy is still reeling from the devastating Ebola outbreak in 2014–15, that, besides triggering a human tragedy, stopped GDP growth, setting back the country's development. The outbreak coincided with the decline of world commodity prices, which is buffeting Liberia's economy, heavily dependent on the natural resource sector. Lower commodity prices have drastically reduced activity, triggered the delay or cancellation of investment plans, undermined budget revenues, and worsened long-standing weaknesses in the financial sector.

2. **The Ebola epidemic has been generally contained, and occasional flare-ups have been swiftly addressed**. The WHO has declared Liberia Ebola free on three occasions, first in May 2015, then in September 2015, and January 2016 after the recurrence of small-scale infections. With capacity vastly improved, the government has reacted quickly to tackle and terminate the small Ebola flare-ups, but a resurgence cannot be ruled out due to lack of a vaccine and the fragility of the health systems.

3. **The twin shocks are delaying Liberia's exit from fragility**. Liberia is a post-conflict country with significant infrastructure and human capital deficits (Annex I), as shown by limited progress toward achieving the Millennium Development Goals (Table 1). Poverty levels are very high, especially in rural areas. Nevertheless, poverty declined from 64 percent in 2007 to 54 percent in 2014 thanks to the authorities' policies, assistance from donors, and a supportive external environment. Food insecurity remains a concern for at least 49 percent of Liberian households. At 3 percent in 2014, the unemployment rate is relatively low compared to the regional average, reflecting the predominance of agriculture in the labor market. But, 74 percent of the employed are vulnerable, due to extensive informality and under-employment. The young demographics, with 42 percent of the population under 15, underlines the need for strong job creation to absorb the fast-rising labor force.

4. **Liberia faces important political and security transitions**. In the coming months, the country is preparing for its first democratic transition of power with the October 2017 general elections, which will end the two-term presidency of Ms. Ellen Johnson Sirleaf. A large number of candidates is expected to be seeking the presidency. In the meantime, the United Nations Mission in Liberia (UNMIL) is drawing down its contingent and handing security over to national security forces.

5. **2016 Article IV discussions focused on policies to boost Liberia's resilience**. In the fiscal area, the less favorable medium-term external environment requires stepping up the mobilization of domestic resources to protect development spending. In a highly dollarized economy, Central Bank of Liberia (CBL) policies should continue to focus on reconstituting buffers to mitigate shocks, and improving vigilance of the banking sector in light of increased vulnerabilities. Growth diversification would reduce the economy's dependence on iron ore and rubber, reducing vulnerabilities to exogenous shocks.

6. **Follow-up on the 2012 Article IV recommendations has been limited**. The 2012 consultation called for: (i) building policy buffers to mitigate vulnerabilities; (ii) harnessing expected strong natural resource revenue to support the development agenda; and (iii) creating a favorable business climate to support broad-based growth and job creation. Progress was largely challenged by delays in budget passage and implementation, weak governance as reflected in the road project audit by the General Auditing Commission (GAC), the Ebola epidemic, and the decline in commodity prices that have eroded the fiscal space and reversed central bank's reserves accumulation efforts. The 2012 Article IV analysis laid the ground for the current ECF (Box 1).

Box 1. Implementation of the ECF Program

The 2012 ECF arrangement laid the basis for the Fund's stepped-up support to Liberia during the Ebola crisis. The ECF arrangement, with an access of 40 percent of quota[1] (US$78.9 million), was designed to accelerate broad-based growth and poverty reduction while maintaining macroeconomic stability. In the wake of the Ebola virus outbreak in 2014, the program was buttressed by an augmentation of access of 25 percent of quota (US$47.9 million) and a disbursement under the Rapid Credit Facility (RCF) for 25 percent of quota (US$45.7 million) to enhance the country's ability to withstand the shock. In February 2015, the IMF also provided debt relief for 20 percent of quota (US$36.5 million) under the newly established Catastrophe Containment and Relief Trust to cover urgent budgetary and balance of payments needs. Taking into consideration the delay in the program caused by Ebola epidemic, the program was re-phased and extended until December 2016.

The program has been affected by the Ebola epidemic and uneven policy performance. By and large, the ECF, which is aligned with the authorities' own poverty reduction strategy, the Agenda for Transformation (AfT, Annex II) has so far been successful in helping the authorities maintain macroeconomic stability and lay the basis for poverty reduction. However, after the swift completion of the second and third reviews, the fourth review was delayed by the Ebola epidemic, which derailed the implementation of structural reforms, and policy slippages. Unfunded spending commitments on road projects totaling about 3.8 percent of GDP, highlighted Public Financial management (PFM) weaknesses, and quasi-fiscal activities by the Central Bank of Liberia (CBL) combined with persistent large central bank operational deficits, held back the accumulation of international reserves. The fourth ECF review was completed in December 2015 based on the authorities' corrective actions to address PFM weaknesses and strengthen the CBL's buffer position.

Progress towards the fifth review has been mixed so far. All indicative targets for end-December 2015 were met. However, reflecting the impact of commodity price decline, the end-December 2015 performance criterion (PC) on government revenue was missed by US$7 million because of lower tax revenues from the natural resource sector. Furthermore, the PC on net foreign exchange reserves position was missed by US$20 million owing to exceptional liquidity support to the banking system, large foreign exchange interventions, and lower-than-programmed sales of foreign exchange from the government. Two of the nine structural benchmarks for the fifth review were met, while two were completed with delay, and five have not yet been completed.

Discussions with staff are continuing on policies that would allow completing the fifth review. The authorities are closely working with staff to implement corrective measures to address policy slippages. Agreement has been reached on the main lines of the FY2017 budget recently submitted to the Legislature, including strong tax and spending measures, and further structural reform mostly focusing on PFM. Discussions continue on addressing risks in the financial sector.

[1] Based on Liberia's pre-14th review quota of SDR 129.2 million.

B. Recent Economic Developments and Short-Term Outlook

7. Ebola and weak commodity prices have halted the momentum of the economy (Text Table 1, Figure 1, and Table 2):

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	2.5	4.7	5.2	5.7	6.0	6.5
Consumer prices (annual average)	9.9	7.7	8.4	8.3	7.7	7.1	7.1	7.5
	(Percent of GDP, fiscal year)							
Central government operations[1]								
Total revenue and grants	27.4	32.5	32.1	30.3	27.1	27.5	27.6	27.6
Total expenditure and net lending	29.3	40.9	39.2	37.0	33.4	31.9	31.7	31.4
Overall fiscal balance, including grants	-1.9	-8.4	-7.0	-6.8	-6.3	-4.4	-4.1	-3.8
Public external debt	13.2	23.0	28.2	32.3	35.9	37.5	38.2	38.5
	(Percent, unless otherwise indicated)							
Monetary sector								
Credit to private sector (annual change)	5.6	8.1	10.3	9.4	10.8	11.2	11.5	12.7
	(Percent of GDP, unless otherwise indicated)							
External sector								
Current account balance, including grants	-32.5	-33.6	-31.3	-27.7	-26.6	-26.6	-26.5	-27.0
Gross official reserves (millions of U.S. dollars)	411	446	457	509	581	638	688	748
Months of imports of goods and services[2]	2.4	2.6	2.7	3.0	3.3	3.5	3.6	3.7
CBL's net foreign exchange position[3] (millions of U.S. dollars)	179	164	189	227	302	373	433	493
Terms of trade (annual percent change)	-12.1	-25.5	…	…	…	…	…	…

Sources: Liberian authorities and IMF staff estimates and projections.

[1] Including major off-budget items, such as Mt. Coffee project.

[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.

- **After a decade of strong performance, growth stalled in 2014–15**. The real GDP growth rate dropped from 8.7 percent in 2013 to 0.7 percent in 2014 and 0 percent in 2015 as the mining and rubber sectors were hit by the Ebola outbreak and the fall in commodity prices. But activity is expected to rebound modestly to 2½ percent in 2016, underpinned by recovery of services, as confidence post-Ebola picks up, and an expansion in gold production.

- **Inflation is set to remain in single digits**. The inflationary pressures generated by the economic recovery are expected to be partly compensated by the end of the Ebola-related food supply bottlenecks. Inflation is thus projected to average 8.4 percent in 2016, up slightly from 7.7 percent in 2015.

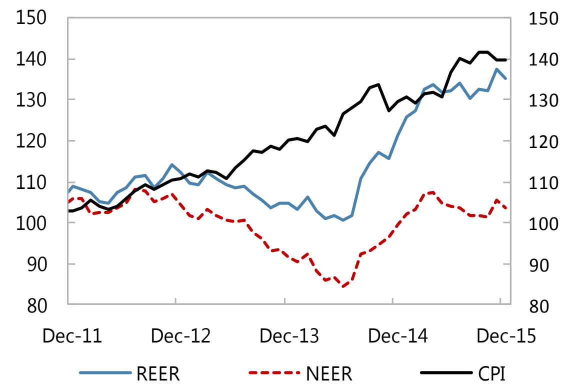
- **Low activity of foreign concessions is impacting government revenues**. As a result of disappointing revenues, Cabinet has submitted to parliament a revised FY2016 budget, with both revenues and expenditures equally reduced by 3 percentage points of GDP or 11 percent of the original budget, leaving unchanged the envisaged budget deficit at

3 percent of GDP. Despite the cut in expenditure, the authorities maintained spending on health and education as envisaged in the original budget. Based on the revised budget, the overall FY2016 government deficit, including off-budget items, is projected to remain around 7 percent of GDP.

- **Exports have declined, but the current account is expected to strengthen thanks to import compression**. With weaker iron ore and rubber prices, total export earnings declined by 45 percent in 2015 compared to 2014, and the current account deficit rose to 34 percent of GDP from 32 percent in 2014. The exchange rate depreciated by about 7 percent in 2015, broadly in line with inflation. The real effective exchange rate strengthened by 11.6 percent reflecting the inflation differential with trade partners and the rising U.S. dollar (Text Chart 1 and Annex III). In 2016, exports are expected to remain weak, despite rising earnings from gold, but imports should decline after the end of the temporary surge in Ebola-related imports of materials and machinery in 2014–15, with the current account deficit falling to 31 percent.[1]

Text Chart 1. Effective Exchange Rate

(Index, 2011=100)



Source: IMF staff estimates.

- **The CBL's net foreign exchange position has declined in 2015**. Gross reserves have risen from US$411 million in 2014 to US$446 million in 2015 (2.6 months of imports). In contrast, the net foreign exchange position of the CBL declined from US$179 million to US$164 million due to operational losses and liquidity support to the banking sector. In 2016, gross reserves are projected to increase to US$457 million and net foreign exchange position should rise to US$189 million, assuming strong policies by the CBL, including implementation of its operational budget, and sufficient foreign exchange sales by the government.

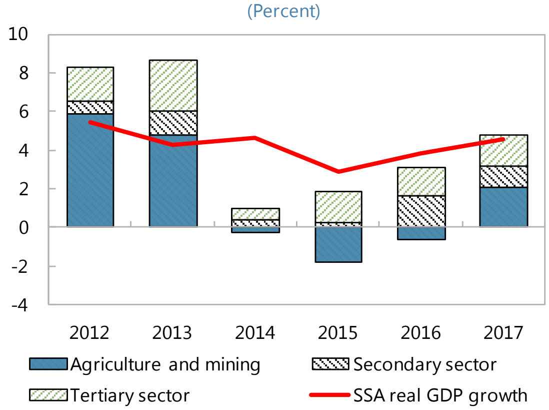
- **The two shocks have further eroded bank asset quality and profitability**. With subdued economic activity, non-performing loans (NPLs) as a percent of total loans have risen to above 20 percent in 2015, weighing on already weak profitability and undermining credit growth recovery.

[1] The import series is being revised upward after migration to the ASYCUDA customs data platform which has a more robust coverage.

Figure 1. Liberia: Recent Economic Developments

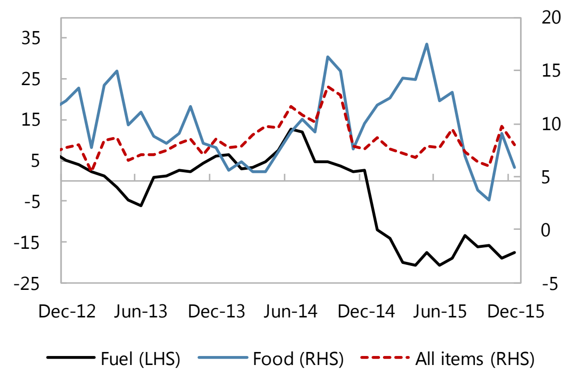
Economic recovery is expected to be driven by gold, agriculture, and services.

Contribution to Growth
(Percent)



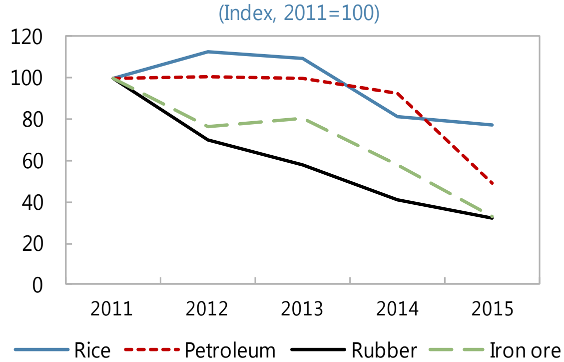
Inflation is projected to remain in single digits, but remains vulnerable to high oil prices and exchange rate depreciation.

Inflation and components
(12 month percent changes)



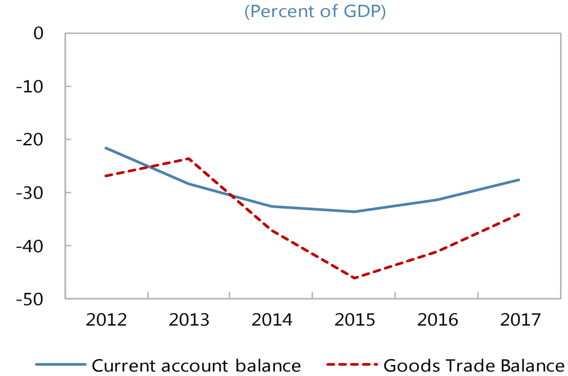
Prices for key commodities have decline sharply.

Commodity Prices
(Index, 2011=100)



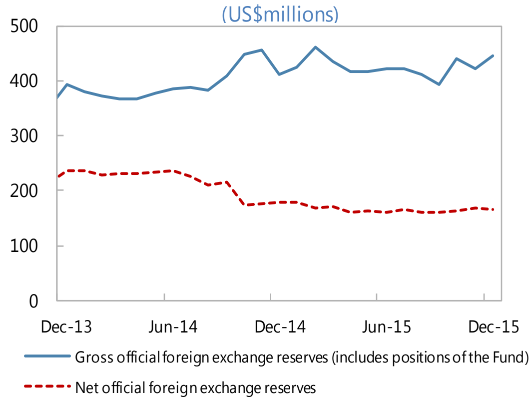
The current account deficit will remain high.

Current Account Balance
(Percent of GDP)



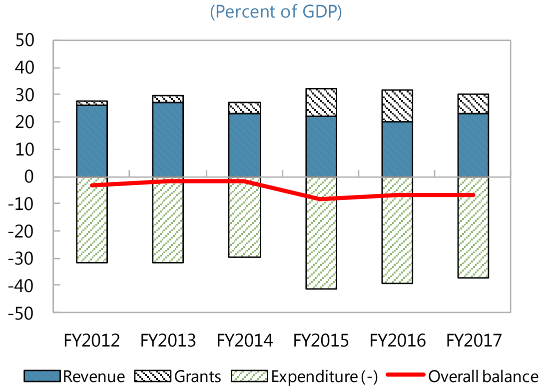
Gross official reserves have remained broadly stable, but the CBL's net foreign exchange position is weak.

Official Foreign Exchange Reserves
(US$millions)



Declining natural resource revenues and external support are compressing government spending.

Fiscal Policy
(Percent of GDP)



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

C. Medium-Term Developments and Risks

8. The medium-term outlook has weakened. Growth is expected to average 5½ percent over the medium term, well below the 8 percent projected before the crisis. Production in the traditional natural resources such as iron ore and rubber is projected to recover over the medium term following the resumption of investment plans and the restructuring of operations to adapt to the low price environment. Overall economic activity is also expected to be spurred by infrastructure spending, particularly on the road network and energy generation centering on the rehabilitation of the Mount Coffee hydropower plant, which is on track to come on stream by end-2016. Productivity in the agricultural sector should increase thanks to ongoing government initiatives under the umbrella of the Liberian Agricultural Transformation Agenda (LATA). Inflation is expected to remain in single digits, thanks to low U.S. inflation and improved food availability, even though it remains vulnerable to a rise in oil prices and the weakening of the domestic currency. The current account deficit is projected to stabilize at 27 percent, and reserves cover would edge up towards 3⅓ months of imports.

9. The fiscal position is projected to improve in the medium term as tax revenue measures kick in. The authorities' strong tax effort is expected to lift domestic tax revenues. Government spending in percent of GDP is expected to return toward pre-Ebola levels after the one-off costs of elections in FY2017–18 with the overall deficit projected to stabilize at 4 percent of GDP as external support declines over time.

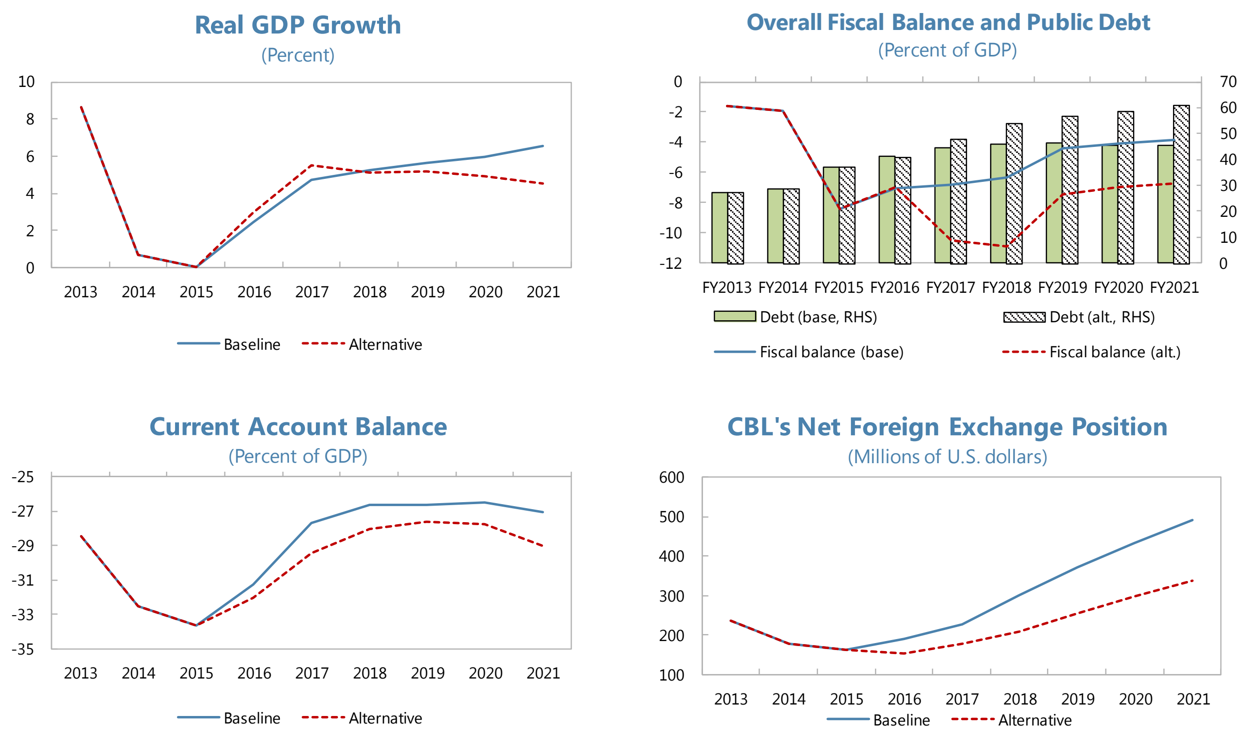
10. Credit growth and investment are expected to contribute to the recovery over the medium term. Medium-term projections are predicated on efforts to resolve rising NPLs and improve bank's profitability, which should promote lending to small- and medium-size enterprises (SMEs) and households and support a private-sector-based diversification of the economy.

11. Downside risks have risen (Annex IV):

- *A stronger-than-expected impact of the commodity price decline*, possibly due to a slowdown of global growth, particularly emerging markets, which could delay the recovery of the natural resource sector;
- *Large scale re-emergence of the Ebola epidemic,* which could have a huge effect on activity and confidence;
- *A security deterioration*, especially after the completion of the UNMIL withdrawal in 2016;
- *Increasing financial sector vulnerabilities, including further loss of correspondent banking relationships (CBRs),* which may undermine the financial sector's contribution to growth;
- *Weak policy implementation*, particularly in maintaining fiscal discipline and rebuilding external buffers (Figure 2).

Figure 2. Liberia: Alternative Scenario with Weak Policies

Policy slippages could undermine the growth trajectory, affect debt sustainability, and delay the build-up of external buffers (Figure 2). The alternative scenario assumes (i) on the fiscal side, a lower tax effort combined with sustained spending in the run-up of, and after the elections, financed by external debt; (ii) on the monetary side, the resumption of quasi-fiscal activities by the central bank; (iii) on the structural side, a delay in implementing reforms and improving the business environment. With weaker fiscal discipline, real GDP would grow faster than the baseline in the short term, but slow down over the medium-term due to poor business environment. Public debt would grow to well over 15 percent above the baseline at the end of the forecast period. On the external side, the current account deficit would be higher, with lower exports due to the weak investment climate and higher imports driven by government spending. The deteriorated current account balance and higher CBL's operational expenditures would hamper the accumulation of international reserves.



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

Authorities' Views

12. **The authorities broadly agreed with staff's views on outlook and risks**. They shared staff's assessment of the far-reaching impact of the new global price environment. They noted that the government launched initiatives to diversify the economy, for example by boosting agricultural productivity and promoting light manufacturing. However, despite these efforts, Liberia still remains heavily dependent on natural resources. On risks, they generally agreed with staff's analysis, underlining the downside risks from the commodity price shock. They stressed that, while Ebola could resurface, swift containment of recent flare-ups has increased public confidence in the improved capacity of the health system.

POLICIES TO FOSTER RESILIENCE AND GROWTH

A. Laying the Groundwork for Fiscal and Debt Sustainability

Fiscal Policy

13. **The fall in commodity prices and a decline in external assistance are straining fiscal resources**. Tax and non-tax revenues have declined in FY2016 by an estimated 2.4 percent (US$11 million) compared to FY2015 (against a growth of 8 percent envisaged in the original FY2016 budget), mainly because of the natural resource sector slowdown. External budget support, frontloaded to address the Ebola epidemic, is expected to decline from US$155 million on average in FY2015–FY2016 (including the ECF augmentation and the RCF disbursement) to US$30 million in FY2017. At the same time, spending is under pressure from the one-off costs of the 2017 presidential and general elections and the cost of taking security mandate over from UNMIL.

14. **To address the shortfall, the authorities are introducing ambitious measures in the draft FY2017 budget**. These include:

- ***Revenue mobilization***: (i) increase in fuel storage charge from US$0.20 to US$0.50 per gallon (implemented starting January 2016); (ii) increase in goods and services tax (GST) from 7 percent to 10 percent, consistent with a planned VAT rate of 15–17 percent; (iii) surcharge of US$0.05 per minute on all calls; and (iv) increase in beverage and tobacco excises, in line with the gradual harmonization of tariffs towards the ECOWAS Common External Tariff (CET) (Text Table 2). All these measures, except for fuel storage charge which is an administrative fee, have been submitted to the Legislature together with the FY2017 budget. In parallel, the Liberia Revenue Authorities (LRA) is strengthening revenue administration, with Fund TA support, to improve tax compliance and tax payer audits.

Text Table 2. Liberia: Revenue Measures under FY2017 Budget

Millions of U.S. dollars	FY2017
Already implemented	
Surchage on fuel imports	29.8
Under discussion in the National Legislature	
Goods and service tax	20.0
Excise tax on beverages	3.1
Excise tax on tobacco	1.1
Surcharge on outbound mobile phone call	6.0

Source: Liberian authorities.

- ***Reduction in current spending***: nominal wages and hiring will be frozen, except for selected hiring in health, education, and security sectors (wages were unchanged already in FY2016). Goods and services will also be cut by about 10 percent from the revised FY2016 budget, while maintaining health education spending at the revised FY2016 budget levels, and ensuring adequate security spending. Overall, current spending, including off-budget spending, will decline from 28.4 percent of GDP in FY2016 to 27.3 percent the next fiscal year.

- ***Prioritization of capital spending***: implementation of the Public Sector Investment Program (PSIP) will be limited to ongoing projects, and domestic and external off-budget debt financing will be sought for priority infrastructure projects such as Ganta–Yekepa and Monrovia neighborhood roads, and airport terminal and runway.

15. The authorities are advancing structural fiscal reform. The government is implementing a number of reforms to strengthen PFM, including submission of the draft amendment of the PFM Act to the Ministry of Justice for review, establishment of monitoring and evaluation units for public investment, launch of online procurement application system,[2] and expansion of the IFMIS coverage to public investment. The Ministry of Finance and Development Planning (MFDP) is focusing on better investment management, with the support of IMF TA, by preparing comprehensive databases of PSIP and foreign-financed projects and systematically preparing feasibility studies for domestically-financed projects. The ministry is also stepping up the dialogue with donors to improve budget planning and liquidity management.

Policy Advice

16. Staff welcomed the FY2017 budget measures, and recommended further strengthening the revenue base and streamlining expenditures. Staff recommended further deepening the tax effort, also with the objective of improving fairness, for example through stronger property tax design and collection, the streamlining of fuel import duty exemptions, and the roll-out of the VAT in FY2018 . On the spending side, staff urged pushing ahead with the review of civil service payroll, ongoing with World Bank support, which would help containing the wage bill, and reforming the state-owned enterprises (SOEs), starting with the closure the numerous dormant organizations. The needed streamlining of current spending should ensure however the protection of key social expenditure items.

17. Fiscal policy would benefit from a longer-term approach. The determination of the fiscal stance is focused on the next budget year rather than on the medium-term budget framework. Furthermore, existing legislation does not allow funding multi-year projects, for which resources must be sought each fiscal year—a root cause of past extra-budgetary spending. Thus, the fiscal stance depends on financing availability rather than medium-term fiscal sustainability or demand management. As such, it is currently ultimately determined by debt sustainability considerations, formalized into the debt limits under the ECF which are designed to avoid an increase in the risk of debt distress from moderate to high. Formalization of a fiscal anchor, e.g. an explicit debt target or a spending rule, would make fiscal policy more predictable and support fiscal discipline. Starting a policy dialogue on these themes with domestic and external stakeholders could be a first step towards a more forward-looking fiscal approach.

18. The authorities should push fiscal reform forward. The authorities have taken important steps to strengthen PFM, but much remains to be done, notably on the Treasury Single Account

[2] The Liberia Public Procurement and Concession Commission launched eProcurement Platform (http://ppcc.gov.lr/vr/) for online procurement registration and application.

(TSA), which is held back by technical issues but also resistance from line ministries; the development of public investment database due to limited capacity to monitor progress of each investment projects; and stronger reporting on SOEs finances.

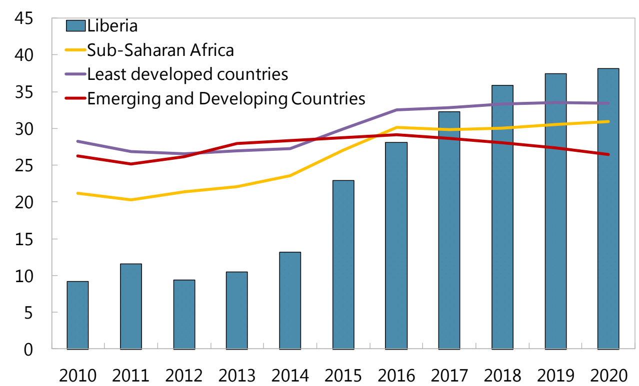
Authorities' Views

19. The authorities shared staff concerns about fiscal resilience against external shocks and progress of PFM reform. They underlined that fiscal space was very tight because of exogenous shocks, and that the increase in taxation was necessary to maintain a minimum level of expenditure. They also noted that streamlining expenditure had required difficult choices in light of the adverse developmental impact of cutting spending items, and felt in particular that the level of capital investment was well below what was needed to rebuild Liberia's infrastructure. They looked forward to additional external assistance to finance some big-ticket items such as the elections. Regarding PFM reform, they stressed the substantial progress made in some areas, such as the improvement of procurement processes, and underscored the need for capacity building to accelerate the reforms, which were delayed by the Ebola crisis.

Debt Sustainability

20. Liberia's debt-carrying capacity has deteriorated. Liberia's domestic and external public debt remains relatively low compared with regional average and other low income countries (Text Chart 2). However, external debt has been rising rapidly, from 11 percent of GDP at end-2013 to 23 percent at end-2015, and is expected to increase further over the medium term, pushing the risk of debt distress from low to moderate as indicated in the December 2015 Debt Sustainability Analysis (DSA). The updated DSA (Annex V) shows that the economy is increasingly vulnerable to further shocks reflecting the worsened growth and export outlook. In particular, any further deterioration in exports could push the risk of debt distress to high.

Text Chart 2. Stock of External Public Debt
(In percent of GDP)



Source: IMF staff estimates and projections.

Policy Advice

21. Staff recommended a prudent borrowing strategy to preserve debt sustainability. In a medium-term outlook, it is critical to slow down the pace of debt accumulation, prioritize grants and concessional financing, and carefully choose new borrowing through sound project appraisal and selection procedures. Debt management capacity should also be strengthened, in particular on the costs and risks analysis of the debt portfolio, and borrowing should be anchored by a new Medium-Term Debt Management Strategy (Annex VI).

Authorities' Views

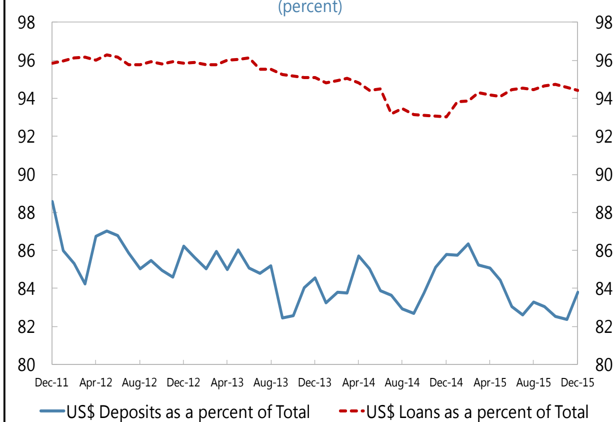
22. **The authorities shared staff's concerns on debt vulnerabilities**. They remained committed to the borrowing targets agreed in the context of the ECF for FY2016 and FY2017, which they saw as useful to help the government maintain borrowing discipline and avoid locking in the new administration on new loans. Nevertheless, they highlighted the tension arising from debt sustainability and the need to close infrastructure gaps, and noted that the growth dividends would help debt sustainability. The authorities also called for more donor coordination as some of the externally-financed projects were not high priority but would further increase the debt burden.

B. Improving the Effectiveness of Monetary Policy

23. **The CBL's net foreign exchange position has weakened**. While gross reserves have increased in 2015, at end-year they were still below three months of imports, well below an adequate level for such a dollarized economy (Annex III). Further, the net foreign exchange position has significantly declined due to exceptional support to the banking sector, larger-than-planned foreign exchange sales interventions to stem the depreciation of the Liberian dollar following the decline in export revenues, and large operational losses of the CBL arising from capital spending in the past years, vis-a-vis poor returns from ultra-low global international interest rates.

24. **High dollarization limits monetary policy effectiveness**. Both the Liberian dollar and U.S. dollar are legal tender, with more than 80 percent of banks' deposits and 90 percent of lending in U.S. dollars (Text Chart 3). In this context, the CBL generally focuses on smoothing the exchange rate to control inflation. Its only active monetary policy tool is the reserve requirement, which currently further favors intermediation in U.S. dollars. In addition, given that only a small portion of the monetary base is in local currency, the CBL can rely on minimal seigniorage.

Text Chart 3. Liberia: Credit and Deposit Dollarization
(percent)



Source: Liberian authorities.

25. **Coordination between the CBL and MFDP to improve liquidity management has improved**. In the recognition that large aid flows affect liquidity management, the CBL, MFDP, and LRA have been regularly holding Joint Liquidity Working Group (LWG) meetings, but the CBL's liquidity management has largely been passive. The central bank's liquidity management capacity has been further limited by a 2014 amendment to the CBL Act which subjects the issuance of currency to the approval of the legislature.

Policy Advice

26. The authorities should step up their efforts to increase external buffers. The CBL should implement rigorously the three-year financial plan approved by its Board in December 2015, which envisages a sizeable reduction in the CBL's operational deficits. Unbudgeted costs for currency printing should be absorbed over the three-year financial plan. In parallel, the CBL should consider allowing more exchange rate flexibility as the inflationary pressures remain limited, while the MFDP should maintain adequate foreign exchange sales to the CBL.

27. De-dollarization should remain a long-term objective. The authorities should aim at gradually reducing the role of the U.S. dollar through the development of domestic financial markets, the increased use of Liberian dollar for both government and private sector transactions and salaries, and prudential regulations that encourage the use of Liberian dollar.

28. Streamlining reserve requirements would improve monetary policy effectiveness. Staff urged the CBL to unify the Liberian and U.S. dollar reserve requirements to support de-dollarization efforts and allow banks to meet requirements on average over a maintenance period. Furthermore, the Joint LWG could take a more active approach to liquidity management.

29. The removal of parliamentary veto on currency printing should be a priority. The authorities should step up their efforts to request Legislature's reversal of the amendment, which unduly affects the autonomy of the CBL.

Authorities' Views

30. The authorities stressed the impact of lower dollar inflows and the need for autonomy of the CBL. While agreeing with the objective of rebuilding reserves, the CBL indicated that progress is contingent on the government's adequate sales of foreign currency, in turn dependent on dollar revenue inflows, which had been undermined by the external shock. The authorities saw de-dollarization as an important long-term goal, but felt that it was also a politically delicate topic, and at this stage they did not see space for major initiatives. They expressed concern about legal constraints deriving from the CBL Act that would prevent modifying the liquidity reserve requirement regime. They undertook to seek legislative changes to equip the CBL with ability to manage domestic currency.

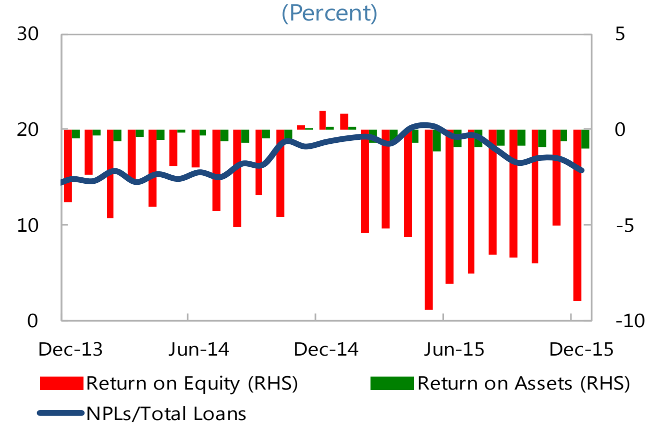
C. Strengthening Financial Sector Stability and Development

Background

31. Soft lending activity and rising NPLs continue to weigh on banks' balance sheets, constraining bank lending. In 2015, NPLs edged up to over 20 percent (according to the CBL's Post-Ebola Review of asset quality, which are significantly higher than NPLs reported by banks) reflecting slow economic activity, a legacy of poor underwriting standards, and weak CBL supervision. High provisioning for NPLs is a key factor for weak bank profitability (Text Chart 4), also hurt by high overhead costs and limited investment opportunities. As a result, balance sheet growth is

constrained and banks are likely to become more risk-averse and tighten lending standards, leading to reduced credit to SMEs and households. But, NPL write-offs are held back by poor enforcement of guidelines, lengthy judicial processes, and absence of markets for distressed assets. The CBL plans to resume the publication of non-compliant delinquent borrowers by early July 2016 and strictly enforce the directive barring them from accessing banking services. For the post-Ebola NPLs, the CBL intensified oversight of credit risk management and restructuring practices. Given the systemic nature of NPLs, the CBL is also exploring setting up an Asset Management Company (AMC) to market distressed assets.

Text Chart 4. Liberia: Bank Profitablity
(Percent)



Source: Liberian authorities.

32. The CBL has intervened a non-systemic failing bank. In the absence of a proper emergency liquidity assistance (ELA) and bank resolution frameworks, including deposit insurance scheme, the CBL had been providing liquidity to a small non-systemic bank for more than two years, accumulating a significant exposure which had eroded its international reserve position. After taking over the bank at the beginning of 2016, the CBL has recently liquidated the bank by transferring most assets and liabilities to a foreign investor through a purchase and assumption (P&A) transaction.

33. Liberia has suffered a significant loss of CBRs. All commercial banks have lost at least one CBR in the last three years, with the most affected losing about 78 percent of their CBR accounts (SIP). A survey of commercial banks confirmed that global banks are severing CBRs due largely to the country's perceived credit risk, AML/CFT concerns, and low volumes of transactions. Loss of CBRs is limiting the range of trade financing products, lowering fees and commissions, making the transfer of humanitarian aid more difficult, and complicating supervision of transfers executed by banks through peers or parents in different jurisdictions.

Text Table 3. Liberia: Selected Financial Soundness Indicators (March 2014–March 2016)

(Percent)

	2014				2015				2016
	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Capital									
Regulatory capital to risk-weighted assets	20.5	21.4	23.6	20.3	23.8	18.0	18.8	15.5	16.2
Reported net capitalization	14.3	15.2	15.0	12.6	13.1	12.3	13.1	11.8	11.6
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
Provisions to classified loan net of interest in suspense	52.5	38.9	44.3	51.8	47.7	51.9	56.4	63.6	67.8
Liquidity									
Liquidity ratio - 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
Net Loans to deposits	51.7	58.4	56.5	50.4	50.8	50.7	54.9	56.8	42.1
Profitability									
Return on assets	-0.4	-0.3	-0.5	0.1	-0.6	-1.0	-0.8	-1.0	-2.4
Return on equity	-2.6	-2.0	-3.4	1.0	-5.2	-8.1	-6.7	-9.0	-18.0

Source: Liberian authorities.

34. Loss of CBRs is partly due to weak AML/CFT framework and tax transparency frameworks. Liberia is suffering from an image of safe haven for dubious transactions, facilitated by the U.S. dollar as legal tender, a completely open capital account, and ease of setting up non-resident corporations subject to very few disclosure requirements. The country has been recently downgraded from the "expedited" to the "enhanced" follow-up process by Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) on account of gaps in the AML/CFT framework. Furthermore, Liberia is listed as a tax haven by several EU members, and is yet to sign the U.S. Treasury Foreign Account Tax Compliance Act (FATCA).

Policy Advice

35. Stepped-up vigilance of the banking sector and clean-up of NPLs should be the priorities in banking supervision and regulation. Strengthening supervision, notably by intensifying on-field visits and reporting, is key to flag the need for improvements in business strategies and recapitalization. Staff welcomes the resumption of the "name and shame" initiative which however may only help in the short-term. An AMC may be a valid instrument in principle, but financing may be difficult given limited fiscal space and banks' negative profitability. Resolving NPLs would be key to unlocking the potential of the financial sector to contribute to the economic recovery. Therefore, the CBL should develop a long-term strategy to reduce NPLs, centering on the mandatory write-offs of legacy NPLs and punitive measures such as a capital surcharge graduated on NPLs holdings.

36. Difficulties in the banking sector have highlighted the need to quickly strengthen the crisis management framework. The CBL's ad-hoc approach to resolving a bank in distress underlines the urgent need to establish a complete set of regulations comprising ELA, a bank resolution framework, and deposit insurance. The CBL should also carry out a comprehensive assessment of its support to the troubled bank and the weak supervision which has delayed the resolution and deepened the central bank's exposure.

37. Urgent action is needed on AML/CFT to prevent further loss of CBRs. The authorities should strengthen the AML/CFT supervisory framework to improve the credibility of the banking system. Of the highest priority are addressing gaps in the AML/CFT Laws relating to terrorist financing and criminalization of illicit trafficking, and strengthening the Financial Intelligence Unit (FIU).

Authorities' Views

38. The authorities shared staff calls for urgency in tackling deteriorating asset quality and addressing AML/CFT deficiencies. They underlined the role of institutional factors in delaying the reduction of NPLs, notably the lack of a secondary market for collateral and of an efficient credit bureau (Liberia does not have a national identity system), and the inefficient judicial system. They noted their work with the commercial court to rein in inefficiencies in foreclosure. The CBL noted that, with Fund TA support, it had already started work on a crisis management and resolution framework, including ELA and deposit insurance. The authorities recognized the importance of revising AML/CFT laws and underlined that the FIU would be fully funded in the FY2017 budget amid broad cuts in a tight fiscal environment.

D. Buttressing Resilience through Economic Diversification and Competitiveness

39. The slump in commodity prices has highlighted the case for economic diversification. Diversification would provide additional growth drivers and reduce growth volatility and vulnerability to exogenous shocks. Yet, Liberia has not so far developed a robust alternative to rubber and mining-led growth, and export diversification lags peers.

40. But, the current business environment is not sufficiently supportive of more dynamic private sector growth. Infrastructure is severely lacking, with a poor road network (only 10 percent of the 10,000 km network is paved) and inadequate electricity provision (government generating capacity is only 32 MW compared to pre-civil war 190 MW (Box 2). The investment climate is weak, with Liberia ranking 179th out of 189 countries in the World Bank's 2016 Ease of Doing Business Rating. Liberia's recent accession to the World Trade Organization (WTO) may benefit the domestic investment climate through the required legal reforms—with trade benefits, such as lower cost of imports and wider export markets access, coming later.

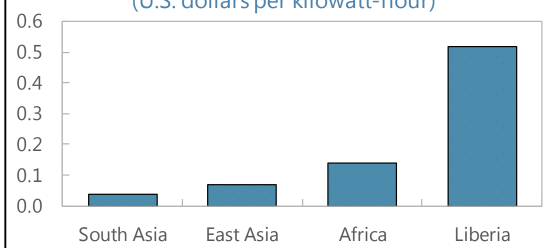
Box 2. Developments in the Energy Sector[1]

Limited provision of reliable and affordable power remains a key bottleneck to growth. Even including private generators, only 14.4 percent of the population has access to electricity, particularly in rural areas (3.7 percent). Installed capacity by the state-owned Liberia Electricity Corporation (LEC) is currently 32MW with a customer base of around 37,000 customers (both residential and commercial). Total installed capacity, including the private sector, is estimated to be higher due to private sector generation, particularly by mining and rubber companies. Developing infrastructure—including improvements in energy supply—is one of the main economic objectives of the AfT and the Liberia Rising long-term development strategy. The government's goal is to provide electricity access to 70 percent of the urban and 30 percent of the rural population by 2030.

The government has undertaken several projects to increase energy supply in recent years. To complement to the existing diesel generators, a first heavy fuel oil (HFO) project financed by the World Bank recently started power generation, and two more HFO plants are expected to start running over the next few months, bringing total capacity to around 60MW. The Mount Coffee hydropower facility is set to increase the country's capacity by another 88MW, with the first unit (22MW) expected to start running end-2016, and three more units to connect over the course of 2017. LEC's transmission grid currently covers only most of Monrovia and donor-financed projects are underway to extend transmission to rural areas along three main corridors, as well as connecting the grid with neighboring countries.

Electricity costs are among the highest in Africa and are a major impediment to business and investment. Liberia's energy costs are 13 times average costs in South Asia and four times the average for Africa. The average household pays a large portion of its income on electricity. The government plans to reduce the price from 52 cents to around 25 cents per KW over the coming months. A new electricity law, facilitating more competition in the sector and switch to hydropower from more expensive fuels, is expected to help ease prices.

Box Figure 1. Electricity Costs
(U.S. dollars per kilowatt-hour)



Sources: Liberian authorities; World Bank; and African Development Bank.

[1] Prepared by Anne Oeking.

41. A strong exchange rate may hinder diversification. Standard exchange rate assessments point to an overvaluation of around 20 percent, likely due to large aid inflows and natural resource revenues, even though these models are ill-suited to deal with a highly dollarized economy (Annex III). Further, wages are relatively high compared to regional peers, particularly in the public sector. These cost factors are likely to hold back the development of competitive non-natural resource exports.

42. Financial inclusion, key for private sector growth, is lagging. Limited physical access to, and usage of financial services is holding back the growth of the non-resource private sector, particularly SMEs. Low bank profitability and high operational costs in rural areas hamper the expansion of banking services: bank branches are four per 100,000 adults, while ATMs are only two per 100,000 adults, lower than the fragile economy and the ECOWAS averages. In response, the CBL has established rural community banks, ensuring that all counties have access to at least one of such banks. With regard to usage, banks dominate the financial sector in terms of assets, but non-bank

financial institutions, such as microfinance institutions and credit unions, serve the biggest number of households, and mobile banking is also gradually spreading, now covering all 15 counties. High lending risks, weak rule of law, limited collateral options, and low financial literacy are major bottlenecks of financial development.

Policy Advice

43. Policies to promote diversification could focus on new lines of economic activity and higher quality products within existing sectors. The experience of neighboring countries suggests that potential growth gains of improving export structure could be more than 1 percentage point annually (SIP). There is scope for horizontal diversification in the mining and agriculture sector. For instance, Liberia could produce rubber manufactured products beyond crude rubber, and a steel plant (already planned by an investor) for more products could expand iron ore usage. Horizontal diversification should be combined with quality upgrading of products, for example for rice, the quality of which is below global average and neighbors like Côte d'Ivoire.

44. The authorities should urgently improve the investment climate. The government should continue to work with donors to facilitate affordable electricity for business and domestic use. Improving the judicial system effectiveness related to property rights and contract enforcement should be a long-term priority.

45. The authorities can implement various policies to improve financial inclusion. Better banking supervision, leading to improved profitability, adequate infrastructure, and reform of land registration could help the physical expansion of financial sector. Usage of financial services, including borrowing, could be boosted by the introduction of a national identification system, strengthening the credit registry, and collateral regulation reform, while and the planned deposit guarantee scheme may promote access to deposits. In addition to improvements in the judiciary process, financial inclusion would benefit from reforming collateral registration and increasing financial literacy for the population.

Authorities' Views

46. Economic diversification and the implementation of business environment reforms are a high priority. While agreeing on the value of horizontal and vertical diversification, the authorities remarked how low commodity prices are a disincentive even for the agriculture sector. However, they noted that some products, such as cocoa, have continued to enjoy relatively high prices. The authorities agreed that progress on the investment climate is critical for growth and diversification and noted that the Land Rights Act submitted to the legislature would help secure land rights, especially in rural areas. New energy projects, notably the Mount Coffee hydropower plant rehabilitation, are on schedule and would alleviate electricity problems, including lowering costs. They noted that the government is also working on judicial enforcement.

OTHER ISSUES

47. Efforts to improve the coverage and quality of statistics are ongoing. Data availability and quality is limited, due to weak capacity, lack of adequate collection mechanisms, and limited cooperation among agencies. These deficiencies significantly hamper policy making and surveillance.

48. The authorities are stepping up efforts to extend data coverage. The Liberia Institute for Statistical and Geo-Information Services (LISGIS) has just updated poverty data based on the 2014 household income and expenditure survey (HIES), which was interrupted by Ebola. LISGIS is also revising national accounts estimates with technical assistance from the IMF and has prepared preliminary estimates for 2008–13, which will be validated by a HIES for 2016. With support from the IMF and World Bank, the HIES will also inform the revision of the CPI basket, now several decades old. The CBL is also revising trade data following the introduction of the ASYCUDA customs system.

49. Liberia has been receiving substantial amounts of TA from the Fund (See Informational Annex). Capacity building needs are high in various areas, especially PFM, revenue administration, liquidity and crisis management, and CPI and national account statistics. Engagement by the Fund and AFRITAC West has been active even during the Ebola crisis through remote support via online tools. Reform of revenue administration by the LRA and establishment of liquidity forecasting framework in the CBL have made progress whereas cash-base public expenditure recording and financial sector supervision remain weak. Slowdown in reform is also due the Ebola crisis. Consolidating on this progress, going forward TA will focus on PFM, revenue administration, central bank operation, crisis management, and national account and BoP statistics. Liberia is piloting the Capacity Building Framework (CBF) approach to enhance the engagement with fragile and post-conflict countries with regard to capacity development under close collaboration among staff, the authorities, and key stakeholders.[3] In line with the CBF and the authorities' requests, delivery of TA will shift in part from diagnostic missions to hands-on capacity development, such as training and workshop.

STAFF APPRAISAL

50. Liberia has been hit in sequence by the Ebola epidemic and the drop in global commodity prices. As the country was finally recovering from the Ebola epidemic, the decline in commodity prices put the economy under severe stress, damaging government revenues, affecting the build-up of international reserves, and intensifying vulnerabilities in the financial sector. Prolonged weakness of commodity prices has also significantly lowered medium-term growth prospects.

51. And, downside risks have risen. The main risk arises from a stronger-than-estimated impact of weak commodity prices on the economy, the deterioration of security conditions after the UNMIL

[3] "IMF Engagement with Countries in Post-Conflict and Fragile Situations – Stocktaking," IMF Policy Paper, May 2015.

withdrawal, and a large-scale re-emergence of Ebola. The overarching risk is the weakening of economic policies, which would significantly undermine the baseline scenario.

52. The policies put in place by the authorities to deal with the shocks go in the right direction. Ebola has been overall contained, despite small-scale flare-ups, and response capacity has significantly improved. The strong fiscal measures for the FY2017 budget lay the ground for reduced dependence on natural resources and foreign assistance. The authorities' focus on diversification is the correct long-term answer to dependency on traditional mining and rubber exports. But structural reform, particularly in the fiscal area and business environment, still falls short of what is needed to make the economy more resilient to external shocks.

53. The measures to address the shortfall in natural resource-related revenues and the decline in external assistance are appropriate. The large tax effort and the cuts in non-essential spending ensure sustainability of the FY2017 budget. To entrench fiscal sustainability, the authorities should deepen the domestic revenue mobilization effort, while increasing its fairness component. They should also shift resources from current to capital spending—while protecting key social items—and take a longer-term approach to fiscal policy, including through the possible introduction of a fiscal anchor.

54. Progress in fiscal reform, in particular PFM, is essential in ensuring budget predictability, efficiency, and transparency. The authorities have made significant progress but much remains to be done, particularly in advancing the TSA, improving investment management, and tightening the grip on financial situation of SOEs.

55. Debt vulnerabilities are rising. While Liberia's external debt is relatively low, borrowing pace has picked up in recent years and is projected to remain strong over the medium term, raising the risk of debt distress to moderate. Yet, the worsened medium-term outlook has reduced debt space, which would further be affected by any deterioration of exports. Staff welcomes the authorities' commitment to adhere to the debt limits under the ECF and to strictly prioritize borrowing. Debt policy should be supported by a new medium-term strategy, and the authorities should consider establish formal debt limits beyond the current ECF.

56. The authorities should strengthen external buffers. International reserves are still not at an adequate level for the highly-dollarized Liberian economy. The needed build-up of reserves depends on the rigorous implementation of the three-year CBL budget and phasing out support to the financial sector—key recommendations of the 2015 Safeguards Assessment update. In this regard, the CBL should regularly report on the implementation of the three-year financial plan, as committed to under the ECF. The CBL should also consider limiting foreign exchange interventions and allow more exchange rate flexibility. These policies must be supported by an adequate provision of foreign exchange by the MFDP.

57. The constraints from the dual currency regime and high dollarization make strong liquidity management particularly important. Further improving coordination among CBL, MFDP, and LRA, with a common effort towards the issuance of liquidity instruments; unifying Liberian dollar

and U.S. dollar reserve requirements, and reforming the reserve maintenance system; and removing the Legislature approval of currency printing are all necessary steps towards more effective liquidity management. In the long run, a gradual process of de-dollarization would also widen the space for the CBL's monetary policy.

58. The CBL should step up its supervision of the banking sector and create an emergency assistance framework, given the increase in vulnerabilities. Despite high reported capitalization levels, NPLs have topped 20 percent in 2015 and profitability remains negative, largely because of provisioning. The deterioration in asset quality and the lack of viable business opportunities increase risks in the banking sector and hold back its lending capacity. A comprehensive strategy to tackle rising NPLs is needed, centering on the enforcement of mandatory write-offs of fully provisioned NPLs. In order to address possible banking difficulties while minimizing use of public resources and ensuring the maintenance of financial stability, the CBL urgently needs to set up a bank safety net package, including ELA, bank resolution framework, and deposit insurance.

59. Action on AML/CFT and tax transparency should be an urgent priority and would help contain further loss of CBRs. The authorities should step up their efforts to address AML/CFT legislative gaps, strengthen the institutional capacity of the FIU, and improve bank supervision—the key factor for credibility of the financial sector. These steps are crucial to avoid further loss of CBRs, which would severe Liberia's remaining links with the international financial system.

60. The commodity price decline has highlighted the importance of economic diversification to improve economic resilience. A regional comparison shows that diversification can boost GDP, and that Liberia has potential for horizontal diversification and upgrading of its export products. But exploiting this potential requires improving the poor business environment to lay the conditions for private sector growth.

61. Financial inclusion can help improve economic resilience by supporting diversification and offering credit options to households. Strengthening the population's access to financial services and the promoting the usage of financial services—notably lending to SMEs—is key to support private sector development and ultimately diversification away from mining and rubber, the traditional drivers of growth. In addition, better access to financial services could help households better face economic and life events.

62. It is proposed that the next Article IV consultation take place on the 24-month cycle.

Table 1. Liberia: Millennium Development Goals

	1990	1995	2000	2005	2010	2014	SSA 2014	Goals 2015
Goal 1: Eradicate extreme poverty and hunger								
Employment to population ratio, 15+, total (%)	*57*	57	57	58	59	59	65	
Employment to population ratio, ages 15-24, total (%)	*34*	34	33	33	33	33	47	
Income share held by lowest 20%	..	..	..	*6*	..	..	*6*	
Malnutrition prevalence, weight for age (% of children under 5)	..	..	23	*20*	..	*15*	17	11.5
Poverty gap at $1.90 a day (2011 PPP) (%)	..	..	..	*28*	..	..	*14*	
Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population)	..	..	..	*69*	..	..	*33*	
Vulnerable employment, total (% of total employment)	..	..	..	*80*	79	..	*52*	
Goal 2: Achieve universal primary education								
Literacy rate, youth female (% of females ages 15-24)	..	*54*	..	*73*	*81*	..	*74*	100
Literacy rate, youth male (% of males ages 15-24)	..	*66*	..	*69*	*70*	..	*81*	100
Primary completion rate, total (% of relevant age group)	..	..	..	*69*	*62*	59	*72*	100
Total enrollment, primary (% net)	..	..	*47*	*35*	*41*	38	80	100
Goal 3: Promote gender equality and empower women								
Ratio of female to male primary enrollment (%)	..	..	74	*92*	*91*	92	*96*	100
Ratio of female to male secondary enrollment (%)	..	..	73	..	..	78	87	100
Ratio of female to male tertiary enrollment (%)	..	..	55	..	..	*63*	91	100
Goal 4: Reduce child mortality by two-thirds								
Immunization, measles (% of children ages 12-23 months)	..	..	63	63	64	58	77	
Mortality rate, infant (per 1,000 live births)	161	146	112	83	61	55	54	107
Mortality rate, under-5 (per 1,000 live births)	241	219	164	117	83	73	78	161
Goal 5: Improve maternal health by three-fourths								
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	156	149	144	127	111	96	
Births attended by skilled health staff (% of total)	..	..	51	*46*	..	*61*	66	
Contraceptive prevalence (% of women ages 15-49)	..	..	10	*11*	..	*20*	36	
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,200	1,900	1,300	1,100	770	741	496	900
Pregnant women receiving prenatal care (%)	..	..	84	*79*	..	*96*	87	
Goal 6: Combat HIV/AIDS, malaria, and other diseases by half								
Incidence of tuberculosis (per 100,000 people)	199	219	242	266	293	308	263	100
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	*0.7*	0.4	*2.2*	0
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	*0.3*	0.3	*1.3*	0
Prevalence of HIV, total (% of population ages 15-49)	0.3	3.1	3.3	2.2	*1.5*	1.2	*5.3*	0
Tuberculosis case detection rate (%, all forms)	*46*	30	22	40	56	57	56	23
Goal 7: Ensure environmental sustainability								
Forest area (% of land area)	51	..	48	47	45	44	30	
Improved sanitation facilities (% of population with access)	..	11	12	15	18	17	35	100
Improved water source (% of population with access)	..	58	61	67	73	75	73	100
Goal 8: Develop a global partnership for development								
Internet users (per 100 people)	0	*0*	0	*0*	2.3	5.4	14.4	
Mobile cellular subscriptions (per 100 people)	0	0	0	5	39	73	79	
Fertility rate, total (births per woman)	7	6	6	6	5	5	5	
Memorandum items:								
GNI per capita, Atlas method (current US$)	*280*	*120*	150	120	250	370	2,346	
GNI, Atlas method (current US$) (billions)	*0.6*	*0.3*	0.5	0.4	0.8	1.6	35.3	
Life expectancy at birth, total (years)	42	42	46	52	56	61	60	
Literacy rate, adult total (% of people ages 15 and above)	..	*43*	..	*54*	*59*	..	*65*	

Source: World Development Indicators.
Values in italics refer to a different year (+/- 1 year).

Table 2. 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	2.5	4.7	5.2	5.7	6.0	6.5
Agriculture & fisheries	-3.7	0.7	1.9	3.3	5.6	6.4	6.2	6.0
Forestry	2.2	2.0	2.0	2.0	3.5	4.0	4.5	4.5
Mining & panning	3.3	-15.9	-11.5	10.4	1.6	1.3	11.9	16.5
Manufacturing	-0.7	-1.5	8.7	5.0	8.5	7.4	5.1	5.1
Services	2.3	4.3	5.4	4.8	5.7	6.3	5.0	5.3
Real GDP excluding mining sector	0.3	2.6	4.3	4.1	5.7	6.1	5.3	5.4
Nominal non-mining per capita GDP (U.S. dollars)	438	452	471	496	534	574	611	714
Nominal GDP (millions of U.S. dollars)	2012	2035	2138	2289	2512	2767	3025	3249
Inflation								
Consumer prices (annual average)	9.9	7.7	8.4	8.3	7.7	7.1	7.1	7.5
Consumer prices (end of period)	7.7	8.0	8.5	8.2	7.2	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	32.1	30.3	27.1	27.5	27.6	27.6
Total revenue	23.5	22.5	20.5	23.6	23.8	24.5	24.7	24.8
Grants, including Ebola-related support	3.9	10.0	11.7	6.7	3.2	2.9	2.9	2.8
Total expenditure and net lending	29.3	40.9	39.2	37.0	33.4	31.9	31.7	31.4
Current expenditure	24.3	32.0	28.4	27.3	25.5	23.4	22.8	22.3
Capital expenditure	5.0	8.8	10.8	9.7	8.0	8.5	8.9	9.1
Overall fiscal balance, including grants	-1.9	-8.4	-7.0	-6.8	-6.3	-4.4	-4.1	-3.8
Overall fiscal balance, excluding grants	-5.8	-18.4	-18.7	-13.5	-9.6	-7.4	-6.9	-6.6
Public external debt	13.2	23.0	28.2	32.3	35.9	37.5	38.2	38.5
Central government domestic debt	14.1	14.6	13.0	12.1	10.2	8.8	7.5	6.9
	(Percent, unless otherwise indicated)							
M2/GDP	34.6	34.8	33.6	33.3	32.7	32.2	31.6	31.2
Credit to private sector (percent of GDP)	18.8	20.1	21.1	21.5	21.8	22.0	22.4	23.5
Credit to private sector (annual percent change)	5.6	8.1	10.3	9.4	10.8	11.2	11.5	12.7
	(Percent of GDP, unless otherwise indicated)							
External sector								
Current account balance								
including grants	-32.5	-33.6	-31.3	-27.7	-26.6	-26.6	-26.5	-27.0
excluding grants	-95.1	-88.8	-76.6	-54.1	-51.0	-49.1	-47.4	-44.7
Trade balance	-37.0	-46.0	-41.1	-34.1	-30.6	-31.6	-27.0	-24.9
Exports	24.0	13.1	12.4	12.2	11.8	11.6	12.2	13.5
Imports	-61.0	-59.1	-53.6	-46.3	-42.4	-43.2	-39.2	-38.3
Grants (donor transfers, net)	62.6	55.2	45.3	26.4	24.4	22.5	20.9	17.7
Gross official reserves (millions of U.S. dollars)	411	446	457	509	581	638	688	748
Months of imports of goods and services[2]	2.4	2.6	2.7	3.0	3.3	3.5	3.6	3.7
CBL's net foreign exchange position[3] (millions of U.S. dollars)	179	164	189	227	302	373	433	493
Memorandum								
Terms of trade (annual percent change)	-12.1	-25.5						
Iron ore price (US$ per metric ton)	97	55	47	37	34	35	36	36
Gold (US$ per troy ounce)	1,266	1,160	1,215	1,228	1,241	1,254	1,264	1,286
Rubber (US cents per pound)	89	71	67	67	67	67	67	67

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

[1] Including major off-budget items, such as Mt. Coffee project. 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.

Table 3. Liberia: Balance of Payments, 2014–18

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

	2014	2015		2016		2017	2018
	Est.	Fourth Review	Est.	Fourth Review	Proj.	Proj.	Proj.
Trade balance[1]	-745	-841	-937	-790	-879	-781	-770
Exports, f.o.b.	483	259	266	263	266	278	296
of which: Iron ore	275	93	115	57	70	55	51
of which: Gold	18	50	44	83	87	110	116
Imports, f.o.b	-1,228	-1,100	-1,203	-1,053	-1,145	-1,060	-1,066
Services (net)	-1,015	-852	-925	-810	-869	-564	-593
Income (net)	-345	-280	-283	-262	-240	-256	-299
of which: Public interest payments due	-2	-3	-3	-4	-4	-5	-7
Current transfers	1,451	1,169	1,461	1,067	1,320	967	994
of which: Ebola-related grants	56	42	90	0	88	0	0
Current account balance	-654	-804	-684	-795	-668	-634	-668
Current account balance, excluding grants	-1,914	-1,775	-1,806	-1,657	-1,638	-1,238	-1,282
Capital and financial account (net)	617	707	591	818	669	685	744
Capital account	117	53	69	51	61	60	61
Financial account	500	654	522	767	607	625	682
Foreign direct investment (net)	275	277	257	243	258	271	335
Portfolio investment (net)	0	0	0	0	0	0	0
Other investment (net)	224	376	265	524	349	354	348
Official financing: medium and long term (net)	91	114	88	140	120	139	136
of which: Ebola-related loans	0	19	19	29	0	0	0
Private financing (net)[2]	133	263	177	384	229	215	212
Overall balance	-38	-97	-93	22	0	51	76
Financing	38	97	93	-22	0	-51	-76
Change in gross official reserves (increase -)[3]	-18	-20	-34	-22	-12	-51	-73
Net use of IMF credit and loans	56	80	91	0	11	0	-3
Donor financing	0	0	0	0	0	0	0
Exceptional financing	0	36	36	0	0	0	0
Financing gap (- deficit / + surplus)	0	0	0	0	0	0	0
Memorandum items:							
Current account balance (percent of GDP)							
Including grants	-32.5	-39.2	-33.6	-36.9	-31.3	-27.7	-26.6
Excluding grants	-95.1	-86.5	-88.8	-76.8	-76.6	-54.1	-51.0
Trade balance (percent of GDP)	-37.0	-41.0	-46.0	-36.6	-41.1	-34.1	-30.6
Donor transfers (net, percent of GDP)	62.6	47.3	55.2	40.0	45.3	26.4	24.4
Foreign direct investment (net, percent of GDP)	13.7	13.5	12.6	11.3	12.1	11.8	13.3
Public sector external debt (medium and long term, percent of GDP)[4]	13.2	22.9	23.0	29.3	28.2	32.3	35.9
Gross official reserves	411	438	446	461	457	509	581
Gross official reserves (months of imports)[5]	2.4	2.7	2.6	2.8	2.7	3.0	3.3

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] The "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 4a. Liberia: Fiscal Operations of the Central Government, 2014–18[1]

(Millions of U.S. dollars)

	FY2014	FY2015		FY2016		FY2017	FY2018
	Est.	Fourth Review	Est.	Fourth Review	Proj.	Proj.	Proj.
Total revenue and grants	549	646	646	657	670	674	650
Revenue	471	447	447	474	427	526	572
Tax revenue	386	369	369	399	381	419	461
Non-tax	86	78	78	74	45	107	111
Grants	78	199	199	183	244	149	78
of which: Ebola-related grants	0	137	137	32	97	0	0
Expenditure and net lending	588	809	814	835	817	826	803
Current expenditure	488	637	638	614	592	609	611
Wages and salaries	200	249	255	258	264	259	271
of which: Ebola-related, off-budget		15	15	6	12	3	
Goods and services	163	268	259	234	221	231	203
of which: Ebola-related, off-budget		39	39	6	31	3	
Subsides and transfers	119	112	115	112	97	106	126
of which: Ebola-related, off-budget		9	9				
Interest	5	8	10	10	11	13	12
Capital expenditure	100	173	176	222	224	216	191
of which: Mount Coffee	61	47	47	87	87	66	0
Foreign loan financed	39	72	72	83	64	95	104
Foreign grant financed	41	40	50	66	101	83	55
Domestically financed	20	61	54	72	59	38	33
Overall balance							
Including grants	-39	-163	-167	-178	-146	-151	-152
Non-Ebola balance		-201	-206	-198	-172	-145	-152
Excluding grants	-117	-362	-366	-362	-390	-300	-230
Identified financing	39	163	167	178	146	151	152
External financing (net)	44	114	114	144	117	131	144
Loans	49	119	119	149	121	136	149
of which: Ebola-related loans	0	51	48	39	33	0	0
Amortization (-)	-5	-6	-5	-4	-4	-5	-5
Domestic financing (net)	-5	49	53	34	30	21	9
Central Bank of Liberia	-30	60	40	47	33	7	-3
Use of deposits	-22	-33	-53	47	33	7	0
Gross borrowing	4	99	99	0	0	0	0
Amortization	-12	-5	-5	0	0	0	-3
Deposit money banks	18	-10	13	-12	-2	14	14
Treasury bill purchases (net)	5	0	19	0	0	0	0
Other lending to government (net)	12	-10	-6	-12	-2	14	14
Other (including repayment of arrears)	8	-1	0	-1	-1	0	-2
Financing gap (- deficit / + surplus)	0	0	0	0	0	0	0
Memorandum items:							
Iron-ore related revenue[2]	29	22	22	16	8	10	23
Total public external debt[3]	264	458	458	615	588	721	861
Central government domestic debt[4]	303	291	291	271	271	269	245
of which: foreign currency denominated	283	271	271	261	261	259	237
Basic balance[5]	61	10	9	43	78	65	39
Current balance	-16	-189	-191	-140	-166	-84	-39
Primary balance, including grants	-34	-155	-158	-168	-136	-139	-141
Fiscal year nominal GDP	2,005	2,001	1,991	2,104	2,086	2,229	2,401

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

[1] Budget is shown on a cash basis (i.e., debt service payments are shown after all debt relief).

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

[3] Includes debt to IMF.

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

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

Table 4b. Liberia: Fiscal Operations of the Central Government, 2014–18[1]

(Percent of GDP, unless otherwise indicated)

	FY2014	FY2015		FY2016		FY2017	FY2018
	Est.	Fourth Review	Est.	Fourth Review	Proj.	Proj.	Proj.
Total revenue and grants	27.4	32.3	32.5	31.2	32.1	30.3	27.1
Revenue	23.5	22.4	22.5	22.5	20.5	23.6	23.8
Tax revenue	19.2	18.5	18.6	19.0	18.3	18.8	19.2
Non-tax	4.3	3.9	3.9	3.5	2.2	4.8	4.6
Grants	3.9	10.0	10.0	8.7	11.7	6.7	3.2
of which: Ebola-related grants	0.0	6.8	6.9	1.5	4.7	0.0	0.0
Expenditure and net lending	29.3	40.4	40.9	39.7	39.2	37.0	33.4
Current expenditure	24.3	31.8	32.0	29.2	28.4	27.3	25.5
Wages and salaries	10.0	12.4	12.8	12.3	12.7	11.6	11.3
of which: Ebola-related		0.8	0.8		0.6		
Goods and services	8.1	13.4	13.0	11.1	10.6	10.4	8.4
of which: Ebola-related			2.0		1.5		
Subsides and transfers	5.9	5.6	5.8	5.3	4.6	4.8	5.3
of which: Ebola-related		0.4	0.4				
Interest	0.3	0.4	0.5	0.5	0.5	0.6	0.5
Capital expenditure	5.0	8.6	8.8	10.5	10.8	9.7	8.0
of which: Mount Coffee	3.0	2.3	2.3	4.1	4.2	3.0	0.0
Foreign loans financed	1.9	3.6	3.6	3.9	3.1	4.3	4.3
Foreign grant financed	2.1	2.0	2.5	3.1	4.9	3.7	2.3
Domestically financed	1.0	3.0	2.7	3.4	2.8	1.7	1.4
Overall balance							
Including grants	-1.9	-8.1	-8.4	-8.5	-7.0	-6.8	-6.3
Non-Ebola balance		-10.1	-10.3	-9.4	-8.3	-6.5	-6.3
Excluding grants	-5.8	-18.1	-18.4	-17.2	-18.7	-13.5	-9.6
Identified financing	1.9	8.1	8.4	8.5	7.0	6.8	6.3
External financing (net)	2.2	5.7	5.7	6.9	5.6	5.9	6.0
Loans	2.4	6.0	6.0	7.1	5.8	6.1	6.2
of which: Ebola-related loans	0.0	2.5	2.4	1.8	1.6	0.0	0.0
Amortization (-)	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Domestic financing (net)	-0.2	2.5	2.7	1.6	1.4	0.9	0.4
Central Bank of Liberia	-1.5	3.0	2.0	2.2	1.6	0.3	-0.1
Use of deposits	-1.1	-1.7	-2.7	2.2	1.6	0.3	0.0
Gross borrowing	0.2	4.9	4.9	0.0	0.0	0.0	0.0
Amortization	-0.6	-0.2	-0.3	0.0	0.0	0.0	-0.1
Deposit money banks	0.9	-0.5	0.7	-0.6	-0.1	0.6	0.6
Treasury bill purchases (net)	0.3	0.0	1.0	0.0	0.0	0.0	0.0
Other lending to government (net)	0.6	-0.5	-0.3	-0.6	-0.1	0.6	0.6
Other (including repayment of arrears)	0.4	0.0	0.0	0.0	0.0	0.0	-0.1
Financing gap (- deficit / + surplus)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Iron-ore related revenue [2]	1.5	1.1	1.1	0.8	0.4	0.4	1.0
Total public external debt [3]	13.2	22.9	23.0	29.3	28.2	32.3	35.9
Central government domestic debt [4]	15.1	14.5	14.6	12.9	13.0	12.1	10.2
of which: foreign currency denominated	14.1	13.5	13.6	12.4	12.5	11.6	9.9
Basic balance [5]	3.0	0.5	0.4	2.0	3.7	2.9	1.6
Current balance	-0.8	-9.5	-9.6	-6.7	-7.9	-3.8	-1.6
Primary balance, including grants	-1.7	-7.7	-7.9	-8.0	-6.5	-6.2	-5.9
Fiscal year nominal GDP (mil. of U.S. dollars)	2,005	2,001	1,991	2,104	2,086	2,229	2,401

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

1 Budget is shown on a cash basis (i.e., debt service payments are shown after all debt relief).

2 Non-tax iron sector revenue, including social contribution by the iron companies.

3 Includes debt to IMF.

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

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

Table 5. Liberia: Monetary Survey, 2014–17

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

	2014	Dec. 2015		2016	2017
	Act.	Fourth Review	Prel.	Proj.	Proj.
(Central Bank Survey)					
Net foreign assets	175	195	189	184	241
CBL's gross foreign reserves	514	543	532	554	612
Commercial banks' US$ denominated deposits	102	104	87	97	104
CBL's gross official foreign reserves	411	438	446	457	509
CBL's net foreign exchange position[1]	179	181	164	189	227
Government US$ denominated deposits	91	102	129	85	98
Net domestic assets	-23	-78	-28	-12	-39
Net claims on government	156	98	87	103	76
Claims on other public sector	0	0	0	0	0
Claims on private sector	3	3	4	4	4
Claims on commercial banks	29	27	28	28	28
Other items (net)	-211	-207	-147	-147	-147
Monetary base (M0)	152	116	161	172	203
Monetary base (billions of Liberian dollars)	13	10	14	16	20
(Depository Corporation Survey)					
Net foreign assets	423	419	383	299	328
Net domestic assets	274	294	326	418	436
Net claims on government	186	131	118	124	97
Claims on public enterprises	23	21	33	43	53
Claims on private sector	378	412	409	451	493
Claims on nonbank financial institutions	2	1	2	2	2
Other Items (Net)	-315	-272	-238	-238	-238
Broad money (M2)	697	713	709	718	763
L$ component	186	192	206	207	217
L$ Currency in circulation	101	106	109	105	103
L$ denominated deposits	85	86	97	102	114
US$ component (deposits only)	511	521	502	510	546
Memorandum items:					
Broad money (annual change)	2.1	2.2	1.7	1.3	6.4
L$ component as percent of broad money	-0.6	0.8	2.9	0.2	1.4
US$ component as percent of broad money	2.7	1.4	-1.2	1.1	5.0
Monetary base (annual change)	-3.3	-23.6	5.6	7.1	17.8
Net credit to government (annual change)	-16.5	-29.5	-36.7	5.1	-22.0
Credit to private sector (annual change)	5.6	8.8	8.1	10.3	9.4
Velocity (GDP-to-M2)	2.9	2.9	2.9	3.0	3.0
Money multiplier (M2/M0)	4.6	6.1	4.4	4.2	3.8

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

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

Table 6. Liberia: Financial Soundness Indicators, March 2014–March 2016

(Percent)

	2014				2015				2016
	March	June	Sept.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar
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
Reported net capitalization	14.3	15.2	15.0	12.6	13.1	12.3	13.1	11.8	11.6
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
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
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
Loan concentration (share of total)									
Agriculture	6.3	5.5	8.2	6.8	7.1	7.7	6.9	7.0	6.9
Mining and Quarrying	0.5	0.4	0.5	0.6	0.6	0.7	0.6	0.4	0.4
Manufacturing	1.9	1.9	2.4	1.9	2.2	2.7	2.6	2.6	3.2
Construction	15.6	15.3	17.1	17.2	16.5	17.5	17.0	14.3	15.2
Transportation, Storage, and Communication	8.5	8.2	8.3	7.4	7.6	8.6	8.3	8.7	7.4
Trade, Hotels, and Restaurants	45.2	42.7	41.6	43.8	43.9	42.0	42.5	43.3	41.6
Services	5.8	5.9	5.6	6.3	6.4	5.6	5.7	5.6	6.9
Personal	9.6	9.8	10.0	9.7	9.0	9.3	9.2	10.0	11.2
Government of Liberia	2.1	2.0	2.2	2.2	2.1	2.0	2.8	2.5	2.2
Public corporations	0.8	0.9	1.0	1.1	1.0	0.9	0.8	0.7	0.7
Others	3.7	7.2	3.3	2.8	3.5	3.0	3.7	4.7	4.2
Earnings and profitability									
Return on assets	-0.4	-0.3	-0.5	0.1	-0.6	-1.0	-0.8	-1.0	-2.4
Return on equity	-2.6	-2.0	-3.4	1.0	-5.2	-8.1	-6.7	-9.0	-18.0
Non-interest income to total income	48.9	51.5	51.2	51.0	50.9	47.0	52.9	52.4	51.2
Net interest margin over average assets	2.1	3.4	6.2	7.4	1.5	3.0	5.6	7.6	1.9
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
Liquid assets to net assets	18.8	26.7	29.5	34.0	16.5	28.7	28.2	26.7	26.4
Net loans to deposits	51.7	58.4	56.5	50.4	50.8	50.7	54.9	56.8	42.1

Sources: Liberian authorities; and IMF staff estimates.

Table 7. Liberia: Indicators of Capacity to Repay the Fund, 2016–26

(Millions of SDR, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Projections										
Prospective drawings based on existing and prospective credit	14.8	-	-	-	-	-	-	-	-	-	-
ECF[1]	14.8	-	-	-	-	-	-	-	-	-	-
RCF[2]											
Charges and interest											
Total obligations based on existing and prospective credit[2]	0.0	0.0	2.1	10.7	20.2	23.1	23.8	21.9	18.9	7.7	3.0
Repayments and repurchases	0.0	0.0	2.1	10.5	20.0	23.0	23.7	21.8	18.8	7.7	3.0
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	3.0	3.0	3.0	3.0	3.0
RCF-projected	0.0	0.0	0.0	0.0	3.2	6.5	6.5	6.5	6.5	3.2	0.0
Interests	0.0	0.0	0.0	0.2	0.2	0.2	0.1	0.1	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of											
GDP	0.0	0.0	0.1	0.5	0.9	1.0	1.0	0.8	0.6	0.2	0.1
Gross official reserves	0.0	0.0	0.5	2.4	4.2	4.4	4.2	3.6	2.9	1.1	0.4
Exports of goods and services	0.0	0.0	0.5	2.3	4.0	4.3	3.9	3.2	2.5	0.9	0.3
Fiscal revenue (excluding grants)	0.0	0.0	0.5	2.3	4.1	4.5	4.3	3.6	2.9	1.1	0.4
Outstanding Fund credit[1]	130.5	130.5	128.4	117.9	97.9	74.9	51.2	29.4	10.6	3.0	0.0
In percent of											
GDP	8.6	8.0	7.2	6.0	4.6	3.3	2.0	1.1	0.4	0.1	0.0
Gross official reserves	40.2	36.2	31.2	26.2	20.2	14.2	9.0	4.8	1.6	0.4	0.0
Exports of goods and services	27.6	30.9	29.4	25.7	19.5	13.8	8.4	4.3	1.4	0.4	0.0
Fiscal revenue (excluding grants)	39.8	35.0	31.0	25.6	19.9	14.5	9.2	4.9	1.6	0.4	0.0
Quota[3]	50.5	50.5	49.7	45.6	37.9	29.0	19.8	11.4	4.1	1.1	0.0

Sources: Liberia Finance Department; and IMF staff estimates.

[1] Disbusment schedule of ECF arrangement was rephased, reflecting the delay in completing the fourth review.

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

[3] Following the completion of the 14th General Review of Quotas, Liberia's quota increased to SDR258.4 million.

Table 8. Liberia: Schedule of Disbursements Under the ECF and RCF Arrangements, 2012–16

Amount (Total: SDR 83.98 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	November 15, 2014	Executive Board completion of the fourth review under the three-year ECF arrangement
SDR 7.382 million	March 30, 2016	Executive Board completion of the fifth review under the three-year ECF arrangement
SDR 7.388 million	September 30, 2016	Executive Board completion of the sixth review under the three-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. Building Resilience in Liberia and the Role of the Fund[1]

Liberia is a fragile economy in which the economic base and institutional capital were substantially damaged by a prolonged violent conflict. Since the end of conflict in 2003, the government of Liberia has promoted a reform agenda and significant progress has been made in terms of restoring basic infrastructure, public services, the economy and the consolidation of the authority of state with long term goal of decentralized administration at county level. The UN Mission in Liberia (UNMIL) has helped Liberia to move towards sustainable peace and stability.

Despite progress made, Liberia is still characterized by deep inequalities with regard to financial resources and economic and social opportunities. Many of the issues that contributed to the violent conflict are still present, including tensions along ethnic lines, stark disparities between the rich minority and the impoverished majority, and food insecurity. With the economy struggling with the twin shocks of Ebola and lower commodity prices, these tensions may be exacerbated by mass youth unemployment, anger at corruption, and political positioning in the build up to the 2017 presidential elections.

Given the complex challenges facing the country, building resilience in Liberia requires policy intervention in several fronts. Key elements of a country strategy for building resilience include increasing economic opportunities, careful management of natural resource wealth, maintaining peace and security, adequate public infrastructure investment, and well developed economic and legal institutions. Political inclusion and checks on political power combined with efforts to improve governance and the anticorruption framework are also important. Continued donor supports can be important for resilience by helping in the economic recovery and expanding fiscal space to facilitate public investment.

Economic growth in Liberia needs to be broad based for the country to visibly reduce poverty. This will require taking advantage of near term opportunities from agriculture and natural resource based activities to establish the conditions for diversification into light manufacturing and service exports (SIP). However, exploiting emerging opportunities will depend largely on building the conditions necessary for the private sector to flourish including stable macroeconomic conditions, a strong banking sector, well developed energy and transport infrastructure, and predictable business environment. Over the medium term, the country will need to rebuild its education and training programs to improve the skills of its working population. Fiscal policy has a key role to in this regard by for instance helping mobilize sufficient resources to fund growth interventions and social protection programs.

Several risk factors could derail program implementation and the country's development objectives suggesting the need to develop mitigating policy responses. These risk factors include slowdown of economic recovery stemming from the recent commodity price shock, a resurgence of the Ebola outbreak, and social turmoil relating to the presidential elections in 2017. Mitigation policy responses should these risk factors materialized include maintaining close

[1] Prepared by Charles Amo-Yartey.

communication with the government, flexibility in program implementation, remote program monitoring and deployment of residential advisors, and additional financial support.

Liberia has received a large amount of technical assistance (TA) and training focusing on public financial management, revenue administration, monetary policy, financial sector supervision, and statistics. However, limited capacity and the Ebola crisis delayed TA delivery and the implementation of TA recommendations. The Fund and the authorities are jointly developing a comprehensive capacity building framework (CBF) to ensure further progress in the post-Ebola context. Key elements of the country's capacity development strategy include improving expenditure control and project implementation capacity and transparency; improving revenue administration and strengthening tax policy and natural resource management capacity; producing reliable GDP estimates and building requisite capacity of staff; developing early warning systems to tackle threats to financial stability; and building capacity for liquidity management to guide monetary policy.

The capacity development strategy aims to maximize traction in the context of the expiration of the current ECF program and the forthcoming presidential elections. This is expected to be achieved through appropriate targeting of TA, linking TA recommendations and training, and ensuring stronger collaboration within government. In addition, delivery of TA will shift from diagnostic missions to hands-on capacity development under the CBF. The strategy also seeks to enhance coordination between donors and country authorities to help better define TA priorities.

Annex II. Liberia: Review of the Agenda for Transformation[1]

The Agenda for Transformation (AfT) seeks to addresses the main constraints to growth consistent the long term objective of achieving a middle-income status by 2030 laid out by Liberia Rising 2030. In addition to income growth, the strategy supports initiatives that allow a greater proportion of the population to share in the growth and experience better quality of life. The 5-year plan, launched in 2013 and covering 2012–17, focuses on achieving key objectives across four main pillars: peace, security and rule of law; infrastructure and economic transformation; human development; and governance and public institutions.

The peace, security and rule of law pillar has the objective of creating an atmosphere of peaceful co-existence through reconciliation and conflict resolution, improved security and access to justice and rule of law. To date, a total of about US$344 million has been spent on this pillar with some successes. Available data reported by the authorities shows that about 73.6 percent of Liberians are satisfied with protection against crime and 78 percent of Liberians are satisfied with the quality of the judicial system. The main challenge stems from the inability of the government to fully execute security deployment plans ahead of UNMIL drawdown and the need for the institutionalization of peace and reconciliation conference.

The economic transformation component aims to transform the economy through the development of the domestic private sector, investment in infrastructure, and enhanced macroeconomic stability. About US$2.4 billion has been invested in agriculture, roads network, and energy infrastructure, and sea and air transportation. Some progress has been made particularly in the area of infrastructure development. The electrification rate in the country has increased from near zero in 2006 to about 14.4 percent in 2015 and about 1000 km of roads have been paved between 2006–2016. However, progress in agricultural investment has been slow and needs to be scaled up to reduce the dependence on rubber and iron ore.

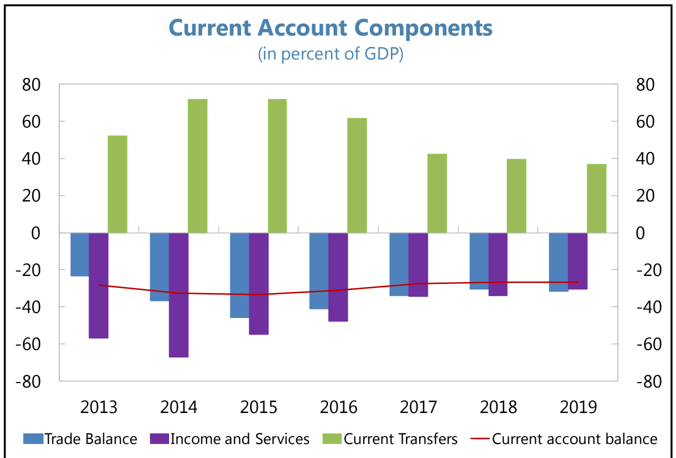
The human development pillar aims to improve the quality of life by investing in more accessible and higher quality education, health, and water and sanitation services. A total of about US$1 billion has been spent by both the government and the donor community on health and education with some remarkable successes. Primary school enrolment rate has increased from 30 percent in 2012 to about 55 percent in 2015. Access to safe drinking water has increased from 700,000 gallons per day in 2006 to 4 million gallons in 2016. However, serious challenges remain including serious lapses in the implementation of free primary education, shortage of health workers, and weak health care standards and infrastructure.

The governance pillar aims to create transparent, accountable and responsive public institutions that contribute to economic and social development as well as inclusive and participatory governance systems in partnership with citizens. A number of initiatives have been made to enhance governance including the development of the Liberia Rising 2030, National Code of Conduct Act, and the Civil Society Organizations-Government of Liberia partnership policy. However, progress has been slow in areas of combating corruption and improving public financial management.

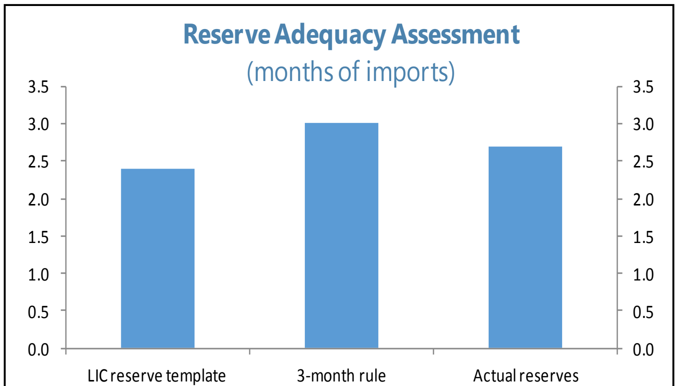
[1] Prepared by Charles Amo-Yartey.

Annex III. Liberia: External Sector Assessment[1]

Liberia faces high external vulnerabilities, with a significant current account deficit and large exposure to external shocks. As a small open economy, Liberia is highly exposed to various external risks, including commodity price shocks, spillovers from major trading and investment partners (e.g., China) and concerns about a resurgence of Ebola. The recent shocks of Ebola and commodity prices have significantly affected the external outlook, with exports estimated to drop by about 45 percent in 2015 and only recovering over the medium term. Despite substantial foreign aid, the current account deficit rose from 28 percent in 2013 to 34 percent in 2015. The continued uncertainty in commodity markets and the likely decline in aid flows may put strain on the balance of payments.



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



Source: IMF staff estimates.

Foreign Exchange Reserve in Highly Dollarized Economies
(Months of import)

	2012	2013	2014	2015
Sao Tome & Principe	3.2	3.2	3.4	3.5
Angola	7.7	7.4	8.4	6.7
Mozambique	2.8	3.4	2.8	2.6
Sierra Leone	2.2	1.8	4.0	3.2
Rwanda	5.6	5.1	4.6	3.9
Liberia	2.8	2.4	2.5	2.6

Source: IMF staff estimates.

Competitiveness has deteriorated. The real effective exchange rate has appreciated by 11.6 percent in 2015, and by over 33 percent since 2005, reflecting relatively high domestic inflation, reflecting possibly the structural transformation from agricultural and informal sectors to the more productive mining sector, and the increase in liquidity from the associated surge in FDI and the large aid inflows. The EBA-Lite models show limited convergence, pointing to an overvaluation of around 20 percent at end-2015. While these models are ill-suited to deal with highly dollarized economy, these results are broadly consistent with the dynamics of the REER. In light of Liberia's high dollarization, with dollar-denominated exports, large import dependency, and extensive indexation, including of domestic wages, the exchange rate pass through effect on current account is very limited. Furthermore, Liberia's international competitiveness ranking remains low, at 179th place out of 189 countries, based on the 2016 Ease of Doing Business index. As a result, policy measures need to

[1] Prepared by Cindy Xu.

focus on containing wages, infrastructure investment to reduce costs, and structural reform to improve the business environment.

Gross foreign exchange reserves appear too low. The current level of gross official reserve is higher than the lower bound of 2.4 months implied by the LIC reserve template, which is based on the costs and benefits of holding reserves. Reserves, at 61 percent of broad money, are well above the 20 percent rule of thumb threshold. However, a more demanding benchmark, such as the standard three-month coverage, may be more appropriate in light of Liberia's dual currency system, very high dollarization, post-conflict status, and its vulnerability to terms of trade shocks and large import dependence. Furthermore, the CBL's own reserves position has been vulnerable to operational expenses and exceptional support to banks. Based on such a benchmark, generally surpassed by post-conflict and dollarized countries (Table), reserves appear insufficient, underlining the importance of accumulating more buffer as a first line of defense on the part of the CBL.

Annex IV. Liberia: 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.	Accumulate international reserve buffers. Diversify the structure of the economy and export markets.
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 prevent 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 and potentially trigger contingent fiscal costs.	Improve profitability of the banking sector, accelerate the removal of NPLs, and set up a bank resolution framework.
Weak policy implementation	High	Weakening of fiscal discipline, loss of international reserves, and decrease in investment confidence.	Front-load policy implementation.

[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 likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. 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.

Annex V. Liberia: Debt Sustainability Analysis[1]

This Debt Sustainability Analysis (DSA) updates the analysis presented to the Board in December 2015. 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 last review, reflecting the worsened exports and growth outlook.[2] The economy remains vulnerable to negative shocks to terms of trade, borrowing terms, exports, and growth.

A. Underlying Assumptions

1. The baseline macroeconomic projections in the near to medium term have deteriorated from the December 2015 DSA (Text table 1). Reflecting the larger than expected adverse impact of the commodity price shock, GDP growth has been revised down to an average of 3.4 percent during 2015–20, down from 4.1 percent in the fourth review staff report, while exports growth is also expected to be slower than previously projected. Over the longer term, macroeconomic projections remain broadly unchanged. Despite weakened outlook, external debt significantly accelerated in recent years, rising from 11 percent of GDP at end-2013 to 23 percent of GDP at end-2015, and is expected to increase further over the medium term.

Text Table 1. Underlying DSA assumptions

(percent of GDP unless otherwise indicated)

	2015-2020		2021-2035	
	Current DSA	Previous DSA	Current DSA	Previous DSA
Real GDP growth (in percent)	3.4	4.1	6.1	6.1
GDP Deflator (percent change)	2.9	2.2	2.3	2.5
Primary deficit	5.9	5.9	0.8	0.8
Exports growth (in percent)	-4.0	-3.7	8.6	9.4

Sources: The Liberian authorities; and IMF staff projections.

B. External DSA

2. The external DSA indicates a moderate risk of debt distress in the baseline scenario. In the medium term, the PV of debt-to-GDP ratio is projected to rise steadily from 14 percent in FY2015 to 22 percent by FY2020 in the baseline scenario, and gradually decline thereafter. The deteriorated exports outlook, mainly owing to the commodity price shock, has contributed to the projected increase in the PV of debt-to-export ratio from 37 percent in FY2015 to a peak of 96 percent in FY2021, close to the 100 percent baseline threshold. The evolution of debt-exports ratio suggests a "moderate-to-high borderline case", while the probability charts do not show any breach of thresholds in the baseline, confirming a moderate risk of debt distress (Figure 3). Due to the highly concessional nature of new debt, debt-to revenues and debt service indicators remain well below the thresholds.

3. However, debt vulnerabilities have risen, with worsened PV of debt-to-GDP and debt-to-exports ratios under alternative scenarios. Under the extreme shock scenario of adverse terms of trade shocks, both the PV of debt-to-exports and external debt-to-GDP ratios breach the threshold around FY 2019–20 and remain higher than the threshold for an extended period. Both the

[1] Prepared by Cindy Xu.

[2] The risk of debt distress is based on country-specific policy-dependent thresholds, with Liberia's CPIA index at 3.09, which is in the category of weak policy performance.

magnitude and persistence of the breach have increased compared to the previous DSA, indicating intensified debt vulnerabilities. Further, the current risk rating is very sensitive to export dynamics, with any further deterioration in exports would likely push the debt rating from moderate to high. As in the previous DSA, the PV of debt to revenue and debt service related ratios remain well below thresholds in all scenarios. The authorities agreed with staff's assessment of moderate risk rating and shared staff's concerns on debt vulnerabilities. They plan to streamline new borrowing over the medium term focusing only on existing pipeline projects while continuing to prioritize grants and concessional financing. Nevertheless, they highlighted the tension arising from debt sustainability and the need to close infrastructure gaps, and noted that the growth dividends would help debt sustainability. The authorities also called for more donor coordination as some of the externally-financed projects were not high priority but would further increase the debt burden.

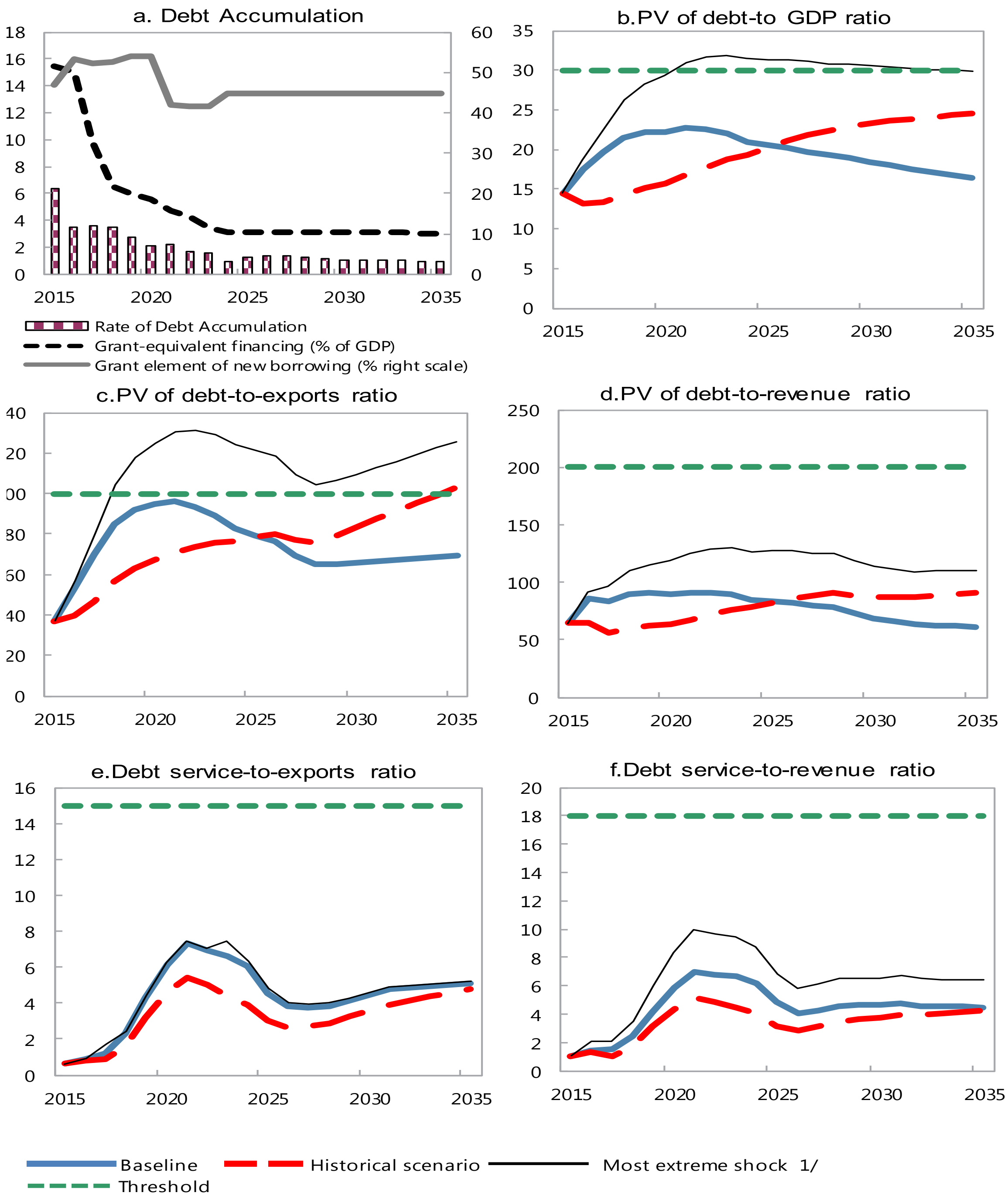
C. Public DSA

4. **The public DSA has not significantly changed compared to the December update**. Under the baseline and shock scenarios, all debt indicators remain below their respective thresholds. Under the baseline, the PV of public debt-to-GDP rises steadily from 16 percent in FY2015 to around 22 percent in FY2020 and is expected to fall afterwards. The PV of debt-to-revenue ratio rises to a peak of 81 percent in FY2019 and then follows a gradual downward path towards the end of the projection period. The PV of debt service-to-revenue ratio reaches its peak of 7 percent in FY2021 and projected to decline afterwards. Under alternative scenarios, public debt indicators are particularly sensitive to adverse shocks to lower growth, a large real depreciation, and a significant increase in other debt-creating flows.

D. Conclusion

5. **Increasing debt vulnerabilities call for prudent borrowing policy and economic diversification, despite the moderate risk rating**. The latest DSA results indicate a rise in debt vulnerabilities compared with the previous review, underlined most notably by the deterioration of debt to exports and debt to GDP ratios in the extreme shock scenario, though the risk of debt distress remains moderate as confirmed by the probability approach. Nevertheless, the debt rating is very close to the high risk category and particularly vulnerable to export shocks. In the case of a high risk rating caused by any further deterioration in debt and exports outlook, the debt limit conditionality would be reassessed in line with the new debt limit policy.

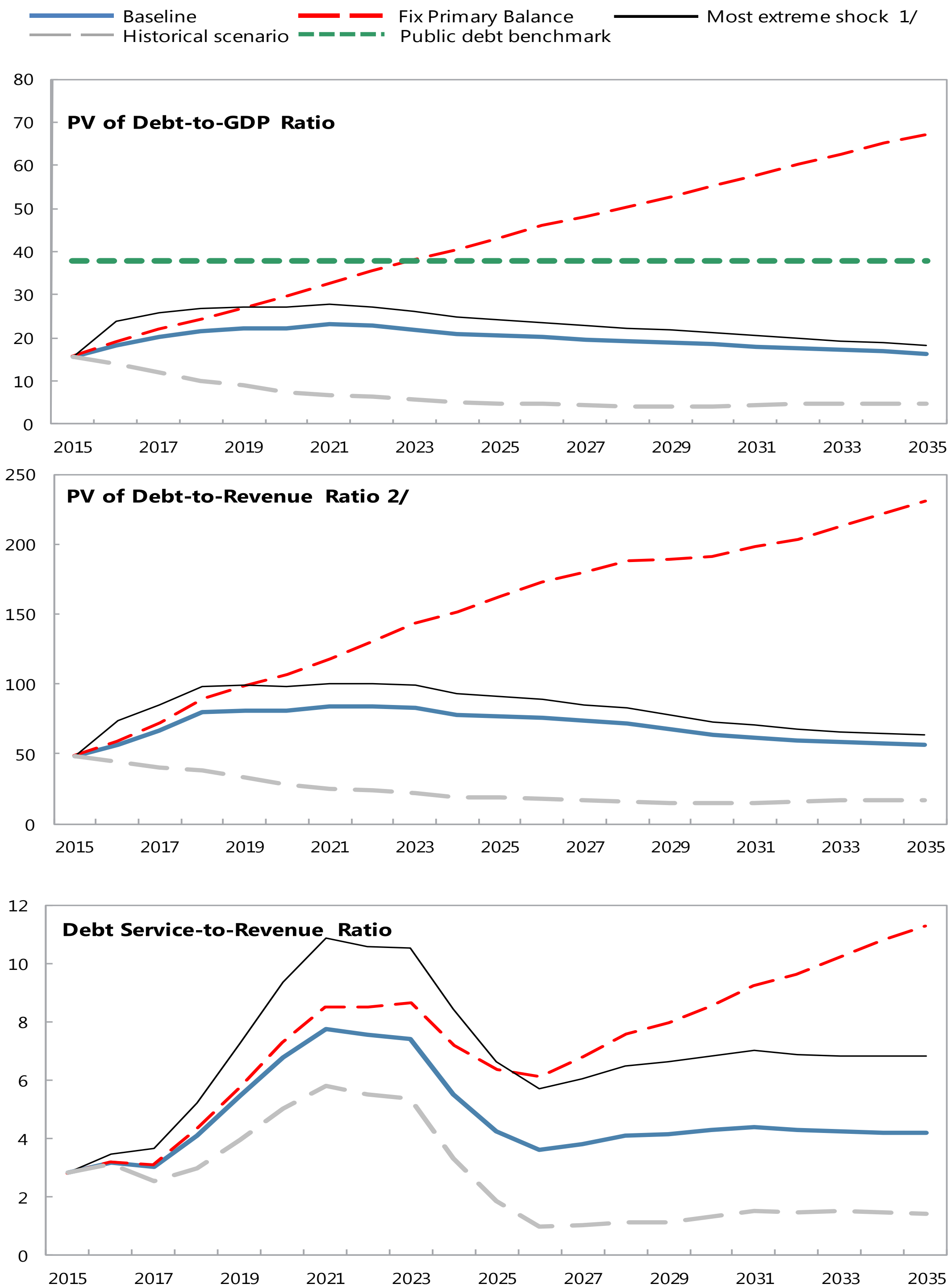
Figure A1. Liberia: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2015–35[1]



Sources: Country authorities; and staff estimates and projections.

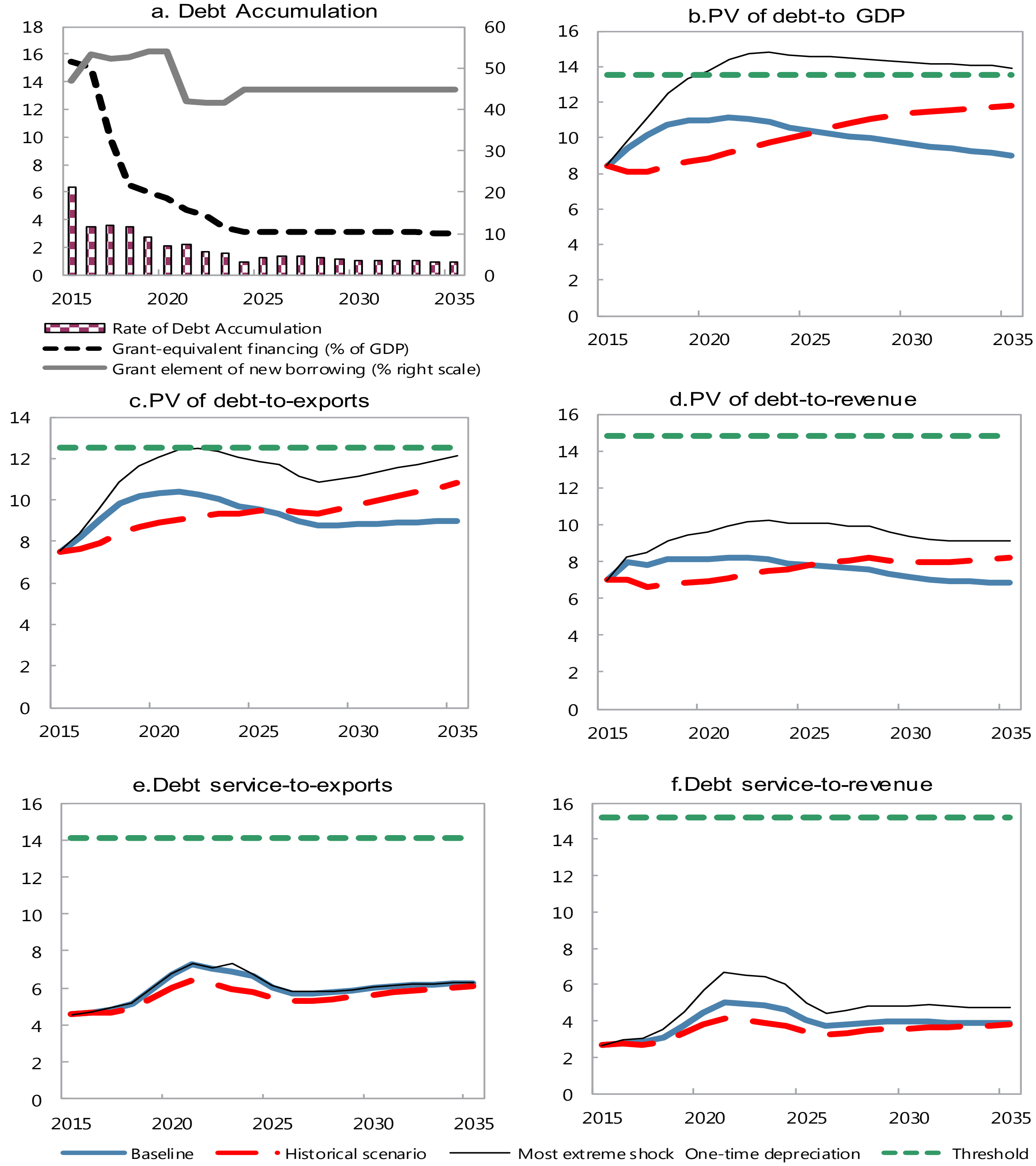
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Terms shock; in c. to a Terms shock; in d. to a Terms shock; in e. to a Non-debt flows shock and in figure f. to a One-time depreciation shock.

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 Terms shock; in c. to a Terms shock; in d. to a Terms 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, fiscal year, 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**	**29.2**	**33.2**	**36.5**	**38.3**	**39.1**		**35.1**	**27.2**	
of which: public and publicly guaranteed (PPG)	9.4	10.9	13.6			23.4	29.2	33.2	36.5	38.3	39.1		35.1	27.2	
Change in external debt	-2.2	1.5	2.7			9.8	5.8	4.0	3.3	1.8	0.9		-1.2	-0.7	
Identified net debt-creating flows	-0.2	2.6	7.8			12.8	9.5	6.4	4.2	2.9	2.3		-0.6	0.3	
Non-interest current account deficit	**24.3**	**25.0**	**30.2**	**21.4**	**11.7**	**33.5**	**32.3**	**29.0**	**26.9**	**26.3**	**26.3**		**30.3**	**24.2**	28.3
Deficit in balance of goods and services	77.3	65.3	73.9			90.9	86.6	69.4	56.4	54.1	51.2		43.9	33.3	
Exports	48.3	48.4	44.2			39.1	33.0	28.3	25.3	24.0	23.5		25.8	23.8	
Imports	125.6	113.8	118.1			130.0	119.5	97.8	81.7	78.2	74.7		69.7	57.1	
Net current transfers (negative = inflow)	-66.5	-57.4	-61.7	-99.6	38.2	-73.1	-66.7	-51.3	-40.8	-38.2	-35.7		-26.0	-15.9	-23.0
of which: official	-26.7	-25.1	-32.2			-37.6	-31.1	-27.3	-25.4	-23.4	-21.7		-14.6	-8.7	
Other current account flows (negative = net inflow)	13.5	17.1	17.9			15.7	12.4	10.9	11.3	10.4	10.8		12.3	6.8	
Net FDI (negative = inflow)	**-22.9**	**-21.5**	**-21.6**	**-13.9**	**17.0**	**-21.2**	**-22.1**	**-21.8**	**-21.5**	**-21.9**	**-22.2**		**-28.9**	**-23.1**	-26.7
Endogenous debt dynamics 2/	**-1.6**	**-0.9**	**-0.7**			**0.5**	**-0.7**	**-0.8**	**-1.1**	**-1.5**	**-1.7**		**-2.0**	**-0.8**	
Contribution from nominal interest rate	0.0	0.1	0.1			0.1	0.2	0.2	0.3	0.3	0.3		0.4	0.3	
Contribution from real GDP growth	-0.8	-0.7	-0.6			0.4	-0.9	-1.0	-1.4	-1.8	-2.0		-2.4	-1.1	
Contribution from price and exchange rate changes	-0.8	-0.4	-0.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-2.1**	**-1.2**	**-5.1**			**-3.0**	**-3.7**	**-2.4**	**-1.0**	**-1.1**	**-1.4**		**-0.6**	**-1.0**	
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/	...	...	8.0			14.5	17.6	19.8	21.5	22.1	22.2		20.5	16.4	
In percent of exports	...	...	18.2			37.1	53.3	69.7	84.9	92.1	94.5		79.5	69.0	
PV of PPG external debt	**...**	**...**	**8.0**			**14.5**	**17.6**	**19.8**	**21.5**	**22.1**	**22.2**		**20.5**	**16.4**	
In percent of exports	**...**	**...**	**18.2**			**37.1**	**53.3**	**69.7**	**84.9**	**92.1**	**94.5**		**79.5**	**69.0**	
In percent of government revenues	**...**	**...**	**34.2**			**64.5**	**85.9**	**83.7**	**90.0**	**90.3**	**89.9**		**83.5**	**60.6**	
Debt service-to-exports ratio (in percent)	**0.1**	**0.8**	**0.4**			**0.6**	**0.9**	**1.2**	**2.3**	**4.3**	**6.2**		**4.6**	**5.1**	
PPG debt service-to-exports ratio (in percent)	**0.1**	**0.8**	**0.4**			**0.6**	**0.9**	**1.2**	**2.3**	**4.3**	**6.1**		**4.6**	**5.1**	
PPG debt service-to-revenue ratio (in percent)	**0.2**	**1.4**	**0.8**			**1.1**	**1.4**	**1.5**	**2.4**	**4.2**	**5.9**		**4.8**	**4.5**	
Total gross financing need (Millions of U.S. dollars)	24.1	73.4	175.9			250.3	218.4	167.8	142.7	144.3	158.8		111.7	226.2	
Non-interest current account deficit that stabilizes debt ratio	26.5	23.6	27.4			23.7	26.4	25.0	23.6	24.6	25.4		31.4	24.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.9	8.5	5.7	7.1	1.8	-2.8	3.9	3.6	4.5	5.5	5.8	3.4	7.1	4.2	6.1
GDP deflator in US dollar terms (change in percent)	7.6	4.0	2.3	6.3	2.7	2.2	0.8	3.1	3.1	4.3	3.7	2.9	1.4	3.8	2.3
Effective interest rate (percent) 5/	0.1	1.6	0.7	0.4	0.6	0.9	0.8	0.8	0.8	0.8	0.9	0.8	1.2	1.2	1.2
Growth of exports of G&S (US dollar terms, in percent)	26.1	13.1	-1.4	15.3	16.5	-12.1	-11.6	-8.2	-3.9	4.6	7.4	-4.0	10.6	4.7	8.6
Growth of imports of G&S (US dollar terms, in percent)	9.3	2.2	12.2	16.0	23.9	9.4	-3.7	-12.6	-10.0	5.2	4.9	-1.1	4.6	5.0	6.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	46.9	53.2	52.1	52.7	53.9	53.9	52.1	44.6	44.6	44.0
Government revenues (excluding grants, in percent of GDP)	26.2	27.5	23.5			22.5	20.5	23.6	23.8	24.5	24.7		24.6	27.0	25.8
Aid flows (in Millions of US dollars) 7/	28.3	45.7	77.6			199.1	243.6	148.6	77.9	77.7	82.8		87.5	196.7	
of which: Grants	28.3	45.7	77.6			199.1	243.6	148.6	77.9	77.7	82.8		87.5	196.7	
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	15.1	9.8	6.5	6.0	5.6		3.1	3.0	3.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			71.4	83.5	77.1	69.0	69.7	70.4		69.2	70.3	68.3
Memorandum items:															
Nominal GDP (Millions of US dollars)	1643.1	1853.7	2004.7			1991.4	2085.6	2228.6	2400.9	2639.8	2896.3		4372.7	9836.6	
Nominal dollar GDP growth	16.0	12.8	8.1			-0.7	4.7	6.9	7.7	10.0	9.7	6.4	8.6	8.2	8.5
PV of PPG external debt (in Millions of US dollars)			156.5			283.4	353.5	428.5	506.2	572.8	628.0		882.6	1588.1	
(PVt-PVt-1)/GDPt-1 (in percent)						6.3	3.5	3.6	3.5	2.8	2.1	3.6	1.3	0.9	1.3
Gross workers' remittances (Millions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	8.0			14.5	17.6	19.8	21.5	22.1	22.2		20.5	16.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	18.2			37.1	53.3	69.7	84.9	92.1	94.5		79.5	69.0	
Debt service of PPG external debt (in percent of exports + remittance	...	...	0.4			0.6	0.9	1.2	2.3	4.3	6.1		4.6	5.1	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table A2. 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+remittances ratio								
Baseline	14	18	20	21	22	22	**20**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	14	13	13	14	15	16	**20**	25
A2. New public sector loans on less favorable terms in 2015-2035 2/	14	19	23	26	28	29	**31**	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	14	17	19	20	21	21	**19**	16
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	14	16	16	18	19	19	**18**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	14	17	19	21	21	21	**20**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	14	22	21	23	23	23	**21**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	14	9	-7	-4	-3	-1	**3**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	14	24	27	30	31	31	**29**	23
PV of debt-to-exports+remittances ratio								
Baseline	37	53	70	85	92	94	**79**	69
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	37	40	47	56	63	67	**78**	103
A2. New public sector loans on less favorable terms in 2015-2035 2/	37	57	80	104	118	125	**122**	125
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	37	51	68	83	90	92	**78**	68
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	37	45	53	66	73	75	**65**	60
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	37	51	68	83	90	92	**78**	68
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	37	68	73	89	96	98	**81**	69
B5. Combination of B1-B4 using one-half standard deviation shocks	37	26	-21	-15	-9	-5	**11**	34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	37	51	68	83	90	92	**78**	68
PV of debt-to-revenue ratio								
Baseline	64	86	84	90	90	90	**83**	61
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	64	64	56	60	62	64	**82**	91
A2. New public sector loans on less favorable terms in 2015-2035 2/	64	91	96	110	115	119	**128**	110
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	64	82	79	85	86	85	**79**	58
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	64	77	70	77	78	78	**75**	57
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	64	81	80	87	87	86	**81**	59
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	64	109	88	94	94	93	**85**	61
B5. Combination of B1-B4 using one-half standard deviation shocks	64	45	-29	-18	-10	-6	**13**	34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	64	118	116	126	126	125	**117**	85

Table A2. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt 2015–35 (Concluded)

(Percent)

				Debt service-to-exports+remittances ratio				
Baseline	1	1	1	2	4	6	**5**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	1	1	1	2	3	5	**3**	5
A2. New public sector loans on less favorable terms in 2015-2035 2/	1	1	1	2	5	7	**4**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	1	1	1	2	4	6	**5**	5
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	6	**5**	5
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	3	**0**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	1	1	1	2	4	6	**5**	5
				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	2	3	4	**3**	4
A2. New public sector loans on less favorable terms in 2015-2035 2/	1	1	1	3	5	7	**5**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	1	1	1	2	4	6	**5**	4
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	1	1	1	2	4	6	**4**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	1	1	1	2	4	6	**5**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	1	1	2	3	4	6	**5**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	0	2	3	**0**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	1	2	2	3	6	8	**7**	6
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	42	42	42	42	42	42	**42**	42

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 A3. Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015–35

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

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	11.0	12.4	16.1			24.6	29.8	33.7	36.6	38.3	39.2		35.0	27.2	
of which: foreign-currency denominated	11.0	12.4	16.1			24.6	29.8	33.7	36.6	38.3	39.2		35.0	27.2	
Change in public sector debt	-2.6	1.4	3.8			8.5	5.2	3.9	2.8	1.8	0.9		-1.1	-0.7	
Identified debt-creating flows	1.3	0.6	1.0			8.3	6.4	4.6	3.6	1.2	0.9		-1.7	-1.9	
Primary deficit	3.2	1.4	1.8	0.0	2.1	8.2	6.8	6.5	6.1	4.1	3.8	5.9	0.8	-0.1	0.8
Revenue and grants	27.9	29.9	27.4			32.5	32.1	30.3	27.1	27.5	27.6		26.6	29.0	
of which: grants	1.7	2.5	3.9			10.0	11.7	6.7	3.2	2.9	2.9		2.0	2.0	
Primary (noninterest) expenditure	31.2	31.4	29.2			40.6	38.9	36.8	33.2	31.6	31.4		27.4	29.0	
Automatic debt dynamics	-1.9	-0.8	-0.8			0.1	-0.4	-1.9	-2.4	-2.9	-2.9		-2.5	-1.8	
Contribution from interest rate/growth differential	-1.2	-0.9	-0.7			0.5	-0.9	-1.1	-1.7	-2.3	-2.5		-2.6	-1.3	
of which: contribution from average real interest rate	-0.2	0.0	0.0			0.0	0.0	-0.1	-0.3	-0.4	-0.4		-0.3	-0.2	
of which: contribution from real GDP growth	-1.0	-0.9	-0.7			0.5	-0.9	-1.0	-1.4	-1.9	-2.1		-2.4	-1.1	
Contribution from real exchange rate depreciation	-0.7	0.1	-0.1			-0.4	0.5	-0.8	-0.7	-0.6	-0.4		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-3.9	0.8	2.8			0.2	-1.1	-0.7	-0.8	0.6	0.0		0.5	1.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	10.6			15.7	18.2	20.3	21.5	22.2	22.3		20.4	16.4	
of which: foreign-currency denominated	...	...	10.6			15.7	18.2	20.3	21.5	22.2	22.3		20.4	16.4	
of which: external	...	...	8.0			14.5	17.6	19.8	21.5	22.1	22.2		20.5	16.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.4	2.3	2.1			9.1	7.8	7.4	7.2	5.6	5.7		1.9	1.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	38.7			48.4	56.6	67.0	79.4	80.8	80.8		77.0	56.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	45.0			69.9	89.0	85.9	90.2	90.6	90.1		83.2	60.7	
of which: external 3/	...	...	34.2			64.5	85.9	83.7	90.0	90.3	89.9		83.5	60.6	
Debt service-to-revenue and grants ratio (in percent) 4/	0.4	3.0	1.1			2.8	3.2	3.0	4.1	5.4	6.8		4.2	4.2	
Debt service-to-revenue ratio (in percent) 4/	0.5	3.2	1.2			4.1	5.0	3.8	4.7	6.1	7.6		4.6	4.5	
Primary deficit that stabilizes the debt-to-GDP ratio	5.8	0.1	-2.0			-0.3	1.6	2.6	3.2	2.4	2.9		2.0	0.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.9	8.5	5.7	7.1	1.8	-2.8	3.9	3.6	4.5	5.5	5.8	3.4	7.1	4.2	6.1
Average nominal interest rate on forex debt (in percent)	0.2	1.4	1.3	0.6	0.6	1.4	1.1	1.0	0.9	0.8	0.9	1.0	1.2	1.2	1.2
Average real interest rate on domestic debt (in percent)	-5.7	-6.6	...	-5.8	4.4	...	...	...	...	...	...	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.6	0.7	-0.9	-3.6	4.1	-2.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	8.7	8.0	9.2	9.5	3.5	7.4	6.5	9.9	7.8	8.3	8.6	8.1	4.7	7.0	6.0
Growth of real primary spending (deflated by GDP deflator, in percent)	24.5	9.1	-1.7	3.4	8.0	35.3	-0.5	-2.0	-5.8	0.5	5.1	5.4	6.5	3.3	5.6
Grant element of new external borrowing (in percent)	...	...	...	...	...	46.9	53.2	52.1	52.7	53.9	53.9	52.1	44.6	44.6	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

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

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

(Percent)

	2015	Projections 2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	16	18	20	22	22	22	20	16
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	14	12	10	9	7	5	5
A2. Primary balance is unchanged from 2015	16	19	22	24	27	29	43	67
A3. Permanently lower GDP growth 1/	16	18	21	22	23	23	24	27
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	16	18	19	20	20	20	17	11
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	16	16	15	17	18	18	17	15
B3. Combination of B1-B2 using one half standard deviation shocks	16	15	13	14	15	14	11	5
B4. One-time 30 percent real depreciation in 2016	16	24	25	25	24	23	21	17
B5. 10 percent of GDP increase in other debt-creating flows in 2016	16	24	26	27	27	27	24	18
PV of Debt-to-Revenue Ratio 2/								
Baseline	48	57	67	79	81	81	77	57
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	48	44	41	38	33	27	18	17
A2. Primary balance is unchanged from 2015	48	59	73	90	99	107	163	231
A3. Permanently lower GDP growth 1/	48	57	68	81	84	85	90	94
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	48	56	64	74	74	73	63	36
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	48	48	50	62	64	65	64	50
B3. Combination of B1-B2 using one half standard deviation shocks	48	46	45	53	54	52	42	18
B4. One-time 30 percent real depreciation in 2016	48	75	82	91	88	84	79	59
B5. 10 percent of GDP increase in other debt-creating flows in 2016	48	74	85	98	99	98	91	63
Debt Service-to-Revenue Ratio 2/								
Baseline	3	3	3	4	5	7	4	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	3	3	3	3	4	5	2	1
A2. Primary balance is unchanged from 2015	3	3	3	4	6	7	6	11
A3. Permanently lower GDP growth 1/	3	3	3	4	6	7	5	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	3	3	3	4	5	6	4	3
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	3	3	3	3	5	6	3	4
B3. Combination of B1-B2 using one half standard deviation shocks	3	3	3	3	5	6	3	2
B4. One-time 30 percent real depreciation in 2016	3	3	4	5	7	9	7	7
B5. 10 percent of GDP increase in other debt-creating flows in 2016	3	3	3	5	6	7	5	5

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.

Annex VI. Liberia: Public Debt Management—Enhancing the Debt Management Unit[1]

A. Policy Context for Public Debt Management (PDM)

1. The debt carrying capacity of Liberia has weakened, underlining the need to further develop the capacity to analyze the costs and risks of the debt portfolio. The macroeconomic outlook has been affected by Ebola and the commodity price shock, with exports hit hard and growth slowing down. In the meantime, external borrowing has accelerated since 2012, with the external debt stock about to rise above regional and developing country averages. Debt sustainability analysis indicates that the debt ratios breach the high-risk threshold in shock scenarios, with the debt outlook particularly vulnerable to shocks to borrowing terms, growth and exports.

B. Toward an Updated Medium Term Debt Strategy

2. **There is a need to develop the capacity to analyze the costs and risks of the debt portfolio**. As domestic and external debts have various characteristics, including differing lenders, currency denominations, interest rates and repayment profiles, this exposes public debt to different future risks and liabilities. The risks inherent in the debt structure should be carefully evaluated and mitigated.

3. Once the analytical capacity has been strengthened, it will be important to update the Medium-Term Debt Strategy (MTDS), based on clear debt management objectives. Given the medium-term macroeconomic outlook, the authorities need to strengthen the framework for public debt management. A formal update, informed by the recently concluded DeMPA would include a rigorous analysis of cost and risk and how the debt portfolio is likely to evolve through time. The debt management strategy should also clearly spell out sources of financing through external or domestic sources.

C. Legal and Institutional Arrangements

4. It will be important to adopt a law on PDM, under preparation, which would specify the borrowing regime for the Government and the role of the DMU. Currently, responsibilities for debt management activities in Liberia carried out by the Ministry of Finance and Development Planning (MFDP) and the Central Bank of Liberia (CBL), with inputs from executing ministries/ agencies. The cash planning and loan servicing to creditors are carried out by the MFDP and CBL, respectively. Pursuant to Section 28 of the PFM law of 2009, the minister of finance is responsible to oversee all borrowing activities on behalf of the Government of Liberia, subject to the limit granted by the Legislatures in approving the budget. The minister of finance carries out these functions through the Debt Management Committee, as Chair, with the Executive Governor of the CBL, the

[1] Prepared by George Anayiotos.

Minister of State without Portfolio and the Minister of Justice as members. The new law would include elements of the current regime and the functions of an enhanced and reorganized the DMU.

5. A new law is required to empower the DMU to achieve the objectives of the PDM. The capacity of the DMU can be achieved building on its current strengths, as well as the expert support by the CBL on issuing debt. The DMU should evolve to consist of the front, middle and back offices. The core functions of the three units should be: (i) *front office:* carrying out the primary issues and other portfolio management operations, negotiating and managing of loans and conditional liabilities; (ii) *middle office:* developing the portfolio strategy and an annual financing plan, monitoring implementation of the plan and reporting on activities; and (iii) *back office:* recording, reconciling, confirming, effecting payment of transactions, providing IT support and strategies, and managing the database.

6. In line with DMU best practices, the following elements are of key importance: (i) the head of the DMU must be a Director General, who reports directly to the Minister; (ii) management and reporting of external and domestic debt should be integrated; (iii) the MoF must decide how best to target the recruitment process, including upgrading the qualifications of current staff through training programs; (iv) the DMU's operations should be based on a new procedures manual, to be prepared, covering internal management, including communication and dealing with operational risk; new procedures will be needed in due course to cover the new analytical functions (including preparing and monitoring the MTDS) for when the upgraded DMU becomes fully operational.

D. Transparency and Accountability

7. Debt-related, financial and economic statistics should be regularly provided by the DMO to stakeholders such as senior financial and economic management, the Legislature, the public and investors. Debt recording, currently primarily carried out in the DMU using the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS), and utilized by the Comptroller and Accountant General and the Budget Department, should be strengthened to include any arrears and should also be used for publication. The securities market will also benefit from the regular publication of an issuance calendar and from further clarity. Drawing-up an agreement between the MoF and the CBL on the use of T-bills for both fiscal and monetary operations purposes, and a Memorandum-of-Understanding for the securitization of government debt currently on the CBL balance sheet will enhance transparency and the functioning of the primary market for government securities. Finally, the secondary market for government securities needs to be developed and investor relations need to be strengthened and carried out year-round with the adoption of best practices.

E. Technical Assistance (TA) Needs, Program and Coordination

8. TA needs identified can be met by the IMF, the World Bank (WB) and the regional TA training centers. In addition to organizing and enhancing the operations of the DMU and drafting

an operations manual, the authorities plan to request training for Debt Sustainability Analysis (DSA) preparation, the evaluation of the risk of the debt portfolio, the update of the MTDS and the development of the capital markets and a LTX resident advisor in PDM. The IMF would provide TA for training for Debt Sustainability Analysis (DSA) preparation, together with the regional TA training centers: the West African Institute of Financial and Economic Management (WAIFEM), where DMU staff will attend a course on public debt statistics in July 2016, and the Tunisia IMF regional training center. The IMF is ready also provide TA in enhancing the debt management capacity of the DMU, the drafting of a procedures manual, the evaluation of the risk of the debt portfolio, the update of the MTDS (together with the World Bank) and the development of the capital markets. The IMF will help identify and backstop a LTX in PDM, while the authorities plan to seek financing for the Advisor from the U.S. Treasury.

INTERNATIONAL MONETARY FUND

LIBERIA

June 22, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION —INFORMATIONAL ANNEX

Prepared By

African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of May 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**	**10.65**	**20.20**

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

[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.

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

[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.

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 assessment noted that safeguards risks at the CBL remain elevated due to the slow progress in implementing safeguards recommendations. The 2015 assessment recommended aligning the bank’s investment guidelines with best international practice (prior action for the fourth program review), developing and implementing a strategy to address the imbalances between operating revenues and expenditures to improve the CBL's financial position (structural benchmark for the fourth program review), and strengthening independent oversight by the Board of Governors and the Audit Committee. While the prior actions on the three-year financial plan and

investment guidelines were met, the other recommendations, including the structural benchmark on monitoring the financial plan, remain to be implemented. This resulted in further deterioration of the CBL's financial position in FY2015 with large operating losses eroding equity reserves.

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 June 7, 2016 was L$92.5=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).

The 2012 Article IV consultation discussions were held in Monrovia during September 4–21, 2012. The staff report (Country Report No. 12/340, December 2012) was discussed by the Executive Board on November 19, 2012 and is posted on the IMF website.

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.

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 2016 Long-term residential advisor has been deployed in the LRA since January 2016.
Public Financial Management Reform	January and February 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 Regime for a New Model Petroleum Production Sharing Contract	June 2014
Budget Formulation and Public Sector Investment Plan	June 2015
Statistics Department	
Balance of Payments	July 2014 and January–February 2016
National Accounts and Consumer Price Index	May 2014, April–September (Remote), June–July, and November 2015, March 2016
Monetary and Capital Markets Department	
Banking Supervision	January, April, July 2014, February and April–May 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. Amo-Yartey assumed the post as the resident representative on May 1, 2014.

JOINT WORLD BANK-IMF WORK PROGRAM, 2012–16

(As of June 10, 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	On-going
	6. Household Income and Expenditure Survey-II	On-going	January 2017	Survey on-going
2. IMF work program	1. Negotiation successor ECF	July–Sept. 2012	November 2012	ECF Program approved on Nov. 19, 2013.
	2. Article IV Consultation	July–Sept. 2012	Nov. 2012	Completed
	3. First review of ECF Program	March 2013	July 3, 2013	Completed
	4. Second review of ECF Program	Sept. 2013	Nov. 2013	Completed
	5. Third review of ECF Program	March 2014	July 3, 2014	Completed
	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	On-going
	10. Joint Fifth and Sixth review of ECF program	October 2016	December 2016	Planned

Title	Products	Timing of mission	Expected delivery date	Status
3. WB/IMF Joint work program	1. Updated Debt Sustainability Analysis	April 2016	July 2016	Completed
	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 June 2, 2016)

A. Bank Group Strategy

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 -2017) 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.

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.

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.

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.

[1] Prepared by the World Bank.

B. Active Projects

There are currently twelve active[2] IDA projects in Liberia, including three regional projects, with a total commitment of approximately US$594.4 million of which approximately US$219.7 million is undisbursed. Three new projects were approved in FY2016 for a total of US$30.0 million. These three projects are summarized below:

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.

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 components 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.

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 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*

[2] Includes effective and or disbursing operations.

Implementation and Coordination, supporting implementation and coordination across ministries and agencies.

C. Economic and Sector Work

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.

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.

The World Bank has 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 June 2, 2016)

Active and Disbursing Projects (U.S. Dollars)					
Project	**Approved Amount (USD Eq)**	**Approval Date**	**Closing Date**	**Undisbursed Balance (USD Eq)**	**Disbursed Outstanding Balance (USD Eq)**
	594,400,000.00			219,696,870.54	327,815,975.46
Ebola Emergency Response Project	115,000,000.00	18-Nov-14	30-Sep-16	486,180.00	108,651,666.00
Liberia Health Systems Strengthening	10,000,000.00	30-May-13	30-May-18	3,804,224.49	5,594,535.51
Liberia: Public Sector Modernization Project	2,000,000.00	10-Feb-14	30-Sep-19	131,989.62	1,831,930.38
Liberia Accelerated Electricity Expansion Project (LACEEP)	35,000,000.00	30-May-13	30-Jun-18	27,377,389.76	5,448,130.24
LR Smallholder Tree Crop Revitalization Support Project	15,000,000.00	5-Jun-12	30-Nov-18	6,363,537.04	7,243,622.96
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	108,516,497.96	22,364,742.04
Liberia Integrated Public Financial Management Reform Project	5,000,000.00	15-Dec-11	30-Jun-16	21,827.96	4,467,132.04
Liberia Road Asset Management Project - LIBRAMP	50,000,000.00	20-Sep-12	30-Jun-22	31,233,439.79	15,058,960.21
Liberia Road Asset Management Project - LIBRAMP	67,700,000.00	7-Jun-11	30-Jun-22	28,884,088.14	31,576,591.86
LIBERIA Electricity System Enhancement Project (LESEP)	22,000,000.00	26-Jan-12	31-May-17	4,611,518.97	15,308,241.03
LIBERIA Electricity System Enhancement Project (LESEP)	10,000,000.00	30-Nov-10	31-May-17	195.55	9,118,004.45
West Africa Regional Communications Infrastructure Program	25,600,000.00	20-Jan-11	30-Sep-16	1,050,722.41	21,814,917.59
West Africa Regional Fisheries Program	9,000,000.00	20-Oct-09	15-Sep-16	13,866.43	8,122,373.57
LR-Urban and Rural Infrastructure Rehabilitation Project	19,600,000.00	24-Jan-14	30-Jun-17	3,153,943.60	14,801,896.40
LR-Urban and Rural Infrastructure Rehabilitation Project	20,000,000.00	29-Jun-10	30-Jun-17	51,550.46	19,026,529.54
LR-Urban and Rural Infrastructure Rehabilitation Project	44,000,000.00	21-Apr-09	30-Jun-17	3,995,898.36	37,386,701.64

[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-Sept 2015**	**Oct-Dec 2015**	**Jan-Mar 2016**	**Apr-Jun 2016**
Total disbursements	61.83	55.27	40.18	183.6	17.5	64.4	24.4	12.7
Repayments	0.33	0.00	0.00	0.00	0.00	0.00	0.0	0.0
Net disbursements	61.49	55.27	40.18	183.6	17.5	64.4	24.4	12.7
Interest and fees	0.05	0.12	0.25	0.79	0.17	0.34	0.07	0.38
Projected*								

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK[1]

(As of May 15, 2016)

There are 18 active AfDB projects in Liberia, in addition to projects funded by trust funds. The portfolio has a total commitment of approximately UA 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.

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.

[1] Prepared by the African Development Bank.

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 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.

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 2017 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.

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.

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

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.

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 2012–2017, and the Bank's Country Strategy Paper 2013–17.

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 June 21, 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, including GDP, are not available due to limited capacity. 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. The processing of the 2012 National Accounts Annual Survey (NAAS 2012) was completed in June 2014, but several issues were identified within the data. Consequently, the set of GDP estimates for 2008–13 presents serious inconsistencies. AFRITAC West 2 in coordination with the World Bank assisted the LISGIS to develop a more robust and reliable set of GDP estimates based on the NAAS 2012 and administrative source data. The authorities are currently preparing to publish these estimates. With support from the World Bank, a Household Income and Expenditure Survey (HIES) was conducted from January to July 2014, but ceased in August due to the Ebola outbreak, and then a full 12-month 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, during 2016, a new market basket based on the six month 2014 HIES. By 2019 it is expected that the weights will be further updated based on the results of the full 12-month HIES 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, but this is planned for 2016.
Government Finance Statistics: Liberia has reported to STA annual GFS data up to 2013 for budgetary central government and central government, excluding social security. The Ministry of Finance is in the process of phasing in the GFSM 2001 framework. The most recent GFS TA mission in 2013 found a number of areas for improvement, including lack of a legal framework to collect GFS; limited data sharing and coordination among data-producing agencies; inconsistent institutional coverage of the general government in other sectors (e.g., national accounts and monetary statistics); omission of some externally funded flows and nonmonetary transactions; lack of a government financial balance sheet (Table 6 in GFSY). A DFID funded TA-mission, scheduled for September 2016, will address some of these issues.
[1]Enhanced Data Dissemination Initiative (EDDI) phase 2 funded by the UK Department for International Development.

Liberia: Statistical Issues (continued)	
Monetary and Financial Statistics: A Monetary Financial Statistics (MFS) mission provided assistance to the authorities in April 2013, with the aim of helping Liberia implement the standardized report forms (SRFs). The mission documented some progress in the area of MFS, but the SRF project has not moved forward since then, and at present there are no plans to finalize it. Data submission was suspended in March 2014. It resumed in April 2016 with reporting of central bank, other depository corporations' and interest rate data until January 2016, but with gaps in the central bank's reporting form.	
Financial sector surveillance: The authorities provide some basic financial soundness indicators (FSIs). Data are not sufficient to conduct stress tests of the banking system or a Balance Sheet Approach analysis. Cross border exposure data for financial corporations are not available.	
External sector statistics: Reporting is not comprehensive. Balance of payments statistics are compiled on a *BPM5* basis, but the Central Bank of Liberia (CBL) is now making efforts to adopt *BPM6* methodology. International Investment Position (IIP) statistics have not yet been 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 (investment income), capital (development aid, remittances,) and financial accounts (direct investment, portfolio investment, and reserve assets). In August 2015, the CBL developed a three year work plan to address these issues and to conduct new surveys for improving data coverage and accuracy.	
II. Data Standards and Quality	
Participant in the General Data Dissemination System (GDDS) since October 2005. Metadata for most data categories were updated in January 2013.	No Data ROSC mission has been conducted.
III. Reporting to STA	
The authorities report, for the related publications (IFS, GFSY, and BOPSY), annual balance of payments data and government finance statistics. Some financial soundness indicators (FSIs) are provided for the IMF database, but not all core FSIs; the reported indicators are not timely. Reserves data have not been reported for many years.	

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	5/30/2016	6/4/2016	D	M	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	4/2016	6/3/2016	M	M	Q		
Reserve/Base Money	4/2016	6/3/2016	M	M	Q		
Broad Money	4/2016	6/3/2016	M	M	Q		
Central Bank Balance Sheet	4/2016	6/3/2016	M	M	Q		
Consolidated Balance Sheet of the Banking System	4/2016	6/3/2016	M	M	Q		
Interest Rates[2]	4/2016	6/3/2016	M	M	Q		
Consumer Price Index	4/2016	6/3/2016	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	4/2016	5/27/2016	M	M	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	4/2016	5/27/2016	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	Memo Items: Data Quality – Accuracy and Reliability
External Current Account Balance	4/2016	6/3/2016	M	M	Q		
Exports and Imports of Goods and Services	4/2016	6/3/2016	M	M	Q		
GDP/GNP	2008	3/1/2011	A	I	I		
Gross External Debt	4/2016	5/27/2016	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).

Statement by Chileshe Mpundu Kapwepwe, Executive Director for Liberia and Ms. Gloria Gasasira-Manzi and Mr. Bernard Wleh Jappah, Advisors to the Executive Director

July 8, 2016

Introduction

We thank staff for the constructive engagement with the Liberian authorities during the recent Article IV Consultations held in Monrovia, and the well-written set of reports. My authorities broadly agree with the staff assessment and find the discussions broadly consistent with the pillars of their medium term economic growth and development strategy, under the Agenda for Transformation (AFT 2012–2017).

Recent Economic Developments and Macroeconomic Outlook

Economic growth in Liberia has been severely weakened by the steep decline in the international prices of Liberia's two major commodities, iron ore and rubber. The outbreak of Ebola in 2014, further strained the economy, significantly eroding gains made in the areas of poverty reduction and growth. Consequent to the twin shocks, the economy contracted with GDP growth falling from 8.7 percent in 2013 to 0 by 2015.

This notwithstanding, economic activity is expected to rebound to 2.5 percent in 2016, averaging 5.5 percent over the medium term, spurred by the resumption of public investment in transportation and energy. The possible resurgence of Ebola, however, remains a major risk to the recovery process. To strengthen capacity and resilience to combat any outbreak of the disease, the authorities have targeted investment in the health sector and the containment of recent flare ups of the disease allude to the positive returns of this investment. In addition, a Bill has been submitted to the National Legislature for the establishment of a National Health Institute, which will help Liberia increase surveillance, laboratory and outbreak response capacity and efficiency for detection and response to public health threats.

Inflation has remained in single digits benefitting from lower international food and oil prices and the gradual improvement in domestic food production, occasioned by the halt of Ebola as well as the relative stability of the exchange rate. The current account deteriorated in 2015 mainly due to a decline in export earnings. The decline in imports due to lower international oil prices and Ebola-related inflows was more than offset by exports which declined by about 40 percent relative to 2014.

Liberia is scheduled to hold general and presidential elections in October 2017 which are historical as it will be the first time that an elected leader transfers power to another. The authorities remain fully committed to continue to institute policies aimed at achieving economic, political and social stability. In this regard, they have invested in the security sector by recruiting and training additional security personnel. This is also in line with the drawdown of the United Nations Mission in Liberia (UNMIL).

Fiscal Policy and Public Financial Management

The 2016/17 Budget resource envelope declined by 11 percent compared to 2015/16. The Budget is underpinned by stringent fiscal policy measures to provide critical public goods and services as well as deliver on targeted investment projects. These growth-enhancing measures are well anchored in the Medium Term Expenditure Framework. To boost revenue generation, the authorities have submitted to the National Legislature, a number of amendments to the Revenue Code, including measures focused on strengthening indirect taxation, without further depressing economic activity. The authorities are also streamlining recurrent expenditures to reflect national priorities in a manner that safeguards social spending. Capital spending will be limited to ongoing projects under the Public Sector Investment Plan (PSIP).

The current legal and regulatory framework requires that all budgets submitted for approval by the National Legislature to be "balanced", with no room for deficits. The one-off requirements to support both the 2017 elections and replacement costs in the security sector, compounded by the envisaged revenue shortfall, have made the application of this principle a challenge to the authorities. While the 2016/17 budget has been designed to accommodate these developments, there still remains a case for additional sources of funding including support from development partners and highly concessional financing for critical projects to steer the country on a firm and sustainable growth trajectory.

Significant strides have been made in public financial management reforms. The Integrated Financial Management Information System (IFMIS) roll-out, payroll verification exercises and the introduction of new procurement regulations to guide the conduct of vendor transactions are key steps that have been instituted by the authorities. In addition, steady progress is being made in the implementation of the Treasury Single Account (TSA).

Debt Management

The authorities are cognizant of the prevailing risks that could escalate the debt thresholds from moderate to high risk category and are committed to remain within the confines of the borrowing limits agreed with the Fund. Consultations on a new debt management manual reflecting the authorities' policy of keeping debt at sustainable levels are ongoing. Grants are high on the scale of preference to support infrastructure development, closely followed by highly concessional options. The authorities are also mindful of the need to maintain borrowing space for future administration's development agenda.

Monetary and Exchange Rate Policies

Monetary policy stance is to primarily support low inflation and exchange rate stability. As such, foreign exchange market interventions are aimed at smoothening the movement in the exchange rate. The Board of the Central Bank of Liberia (CBL) approved a three-year financial plan in December 2015 that envisages a reduction in the CBL's operational deficits and prioritizes the accumulation of reserves, targeting gross reserves at about 3 months of prospective imports by

end-2016. Policy credibility and efficacy have been reinforced with improved collaboration between the fiscal and monetary authorities including through an institutionalized liquidity management framework.

Further, the government intends to continue discussions with the National Legislature to reverse an amendment to the CBL Act that mandates the issuance of currency to the approval of the Legislature, in order to strengthen central bank autonomy and improve the conduct of monetary policy.

Financial Sector Policies

The authorities are committed to taking bold measures to preserve the stability of the banking sector, which has been negatively impacted by the commodity price shock and Ebola. As a manifestation of this commitment, the CBL has engaged the Fund to assist in setting up a framework for macro prudential supervision of the banking system. In addition, the CBL has launched the Financial Sector Development Implementation Project (FSDIP) as a vehicle for instituting reforms to the existing fundamentals of the system, including capital adequacy regulations and the stress testing frameworks. This would align the central bank's practices to standards promulgated by the Basel Committee for Banking Supervision.

To address the issue of high percentage of Non-Performing Loans (NPLs), the authorities are strengthening the CBL's enforcement and supervisory capacities, as well as exploring setting up an Asset Management Company to market distressed assets.

While de-risking is a global problem, there has been a heavy loss of correspondent banking relationships in Liberia for a wide range of reasons, as highlighted in the staff report (selected issues paper). With respect to weaknesses in the AML/CFT Framework, the authorities have committed to fully funding the Financial Intelligence Unit (FIU) in the FY2017 budget, amid broad cuts in a tight fiscal environment and to ensure compliance to standards set by the Financial Action Task force (FATF). In addition, a joint effort between the authorities and the United States Department of Treasury, Office of Technical Assistance (OTA) has also been launched to further strengthen the country's AML/CFT regime.

With the goal to fostering financial inclusion, the authorities are working to develop the necessary regulatory framework to support additional delivery channels of financial products and services. In this regard, the CBL, working with other stakeholders, has established 11 rural community finance institutions (RCFIs) across the country to boost access to finance in the rural areas.

Structural Reforms

To achieve strong, inclusive growth, the authorities are committed to implement structural reforms to facilitate economic diversification, improve existing infrastructure and the business environment. With agriculture as the anchor of the diversification policy, the authorities, are

working on a string of initiatives under the Liberia Agriculture Transformation Agenda. This is expected to spur productivity and diversification of the agricultural sector and related value additions.

Limited access to electricity, due to low generation, has increasingly become a binding constraint to business and investment. The limited power supply has tilted consumption cost north of $0.54 per kilowatt hour, ranking electricity costs among the highest in Africa. To address this predicament, the authorities have intensified investment in the power sector. In this regard, the first Heavy Fuel Oil (HFO) power plant is already operating and two more plants are expected to start over the coming months while the Mount Coffee hydropower project is expected to produce electricity from December 2016. The government has also signed a grant agreement with the Millennium Challenge Corporation (MCC) to boost transmission, distribution and access to electricity.

The accession to World Trade Organization (WTO) protocols was ratified by the Senate in April 2016 and is awaiting concurrence of the House of Representatives. The benefits of conformity, which includes lower cost of imports and access to wider markets, are seen by the authorities as necessary elements to propel growth.

Conclusion

Emerging from fragility has proved to be a challenge in the face of exogenous shocks. In spite of the immediate hurdles, the authorities reaffirm their steadfast commitment to building capacity and instituting prudent policy actions geared towards economic recovery. In close collaboration with development partners, the Liberian authorities have committed to implement macro-critical reforms, both fiscal and monetary aimed at reversing the dire situation and build the foundation for lasting recovery. Additionally, the authorities wish to continue leveraging Fund's engagement and technical assistance in the implementation of the Ebola Economic Recovery Plan, which is a short term off-shoot to the medium term Agenda for Transformation.