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

December 16, 2016

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

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

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

Program Performance

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

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

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

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

Recent Economic Developments and Macroeconomic Outlook

Economic recovery is taking longer than expected due to the residual effects of the EVD and lower commodity prices. Liberia's growth model which has relied over the years on the extractive industry, particularly rubber and iron ore coupled with high importation

regime for its staple commodities, has exposed the economy to exogenous shocks. Growth for 2016 is expected to be -0.5 percent, down from an earlier projection of 2.5 percent, driven by a decline in the forestry sector (-0.7 percent), further deterioration in the mining and panning sector (-23.8 percent), and the manufacturing sector (-4.9 percent).

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

Fiscal Policy, Debt Management and Public Financial Management

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

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

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

Monetary Policy

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

Financial Sector Policy

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

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

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

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

global financial institutions. The CBL has also increased its participation in work of the Financial Action Task Force (FATF).

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

Structural Reforms

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

Conclusion

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