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

June 8, 2018

I. Introduction

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

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

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

II. Recent Economic Developments and Outlook

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

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

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

III. Medium Term Plan

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

Fiscal Policy

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

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

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

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

Debt Management

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

Monetary Policy

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

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

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

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

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

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

Financial Sector

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

Structural Reforms

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

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

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

IV. Conclusion

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