

**Liberia: 2019 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Liberia**



# LIBERIA

June 2019

## 2019 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 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 May 31, 2019 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 May 31, 2019, following discussions that ended on March 8, 2019, 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 May 16, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Liberia.

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## **IMF Executive Board Concludes 2019 Article IV Consultation with Liberia**

On May 31, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Liberia.

Liberia remains a fragile, post-conflict country with weak capacity and limited physical and human capital accumulation. External assistance to Liberia is winding down from its peak in 2016. To address pressing needs, the government launched its Pro-Poor Agenda for Prosperity and Development (PAPD), focusing on physical and human capital accumulation. Policy uncertainty and slippages, however, imposed a significant toll on the economy over the past two years. Particularly, higher fiscal deficits and accommodative monetary policy have led to rapid depreciation of the Liberia dollar and increased inflation, eroding the purchasing power of the poor.

The near- and medium-term outlook under the baseline scenario is challenging. Growth is projected to slow further to about 0.4 percent in 2019 and remain below 2 percent into the medium-term. In the baseline scenario, the authorities face the possibility of a forced, abrupt adjustment when domestic and external financing options are exhausted. An alternative reform scenario is therefore presented as a more viable alternative, in which growth weakens somewhat in the near term, due to proactive fiscal and monetary tightening, but picks up significantly over the medium term to exceed 5 percent by 2024.

### **Executive Board Assessment<sup>2</sup>**

Executive Directors noted that Liberia is facing major economic challenges and welcomed the authorities' efforts to bolster macroeconomic stability. Directors emphasized that steadfast and

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<sup>1</sup>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.

<sup>2</sup>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>.

well-sequenced policies and structural reforms are essential to enhance macroeconomic stability and promote higher, sustainable, and inclusive growth. They welcomed the authorities' Pro-Poor Agenda for Prosperity and Development (PAPD) and agreed that garnering support from the international community will be important.

Directors emphasized that significant fiscal adjustment is needed going forward. They underscored that efforts should focus on mobilizing domestic revenue and rationalizing spending, especially the wage bill, while securing needed space for social and capital spending. Directors encouraged the authorities to formulate realistic budgets and to implement a sound borrowing plan that ensures debt sustainability, while advocating caution in engaging in non-concessional borrowing. They also called for further progress in public financial management reforms to improve the quality of spending in a resource-constrained environment.

Directors agreed that the Central Bank of Liberia (CBL) should tighten monetary policy with the objective of reducing inflation to single digits by 2021. Directors emphasized that further issuance of CBL bills should be suspended until the cost of the operation is included in the government budget, and the fiscal financing gap is closed without CBL financing.

Directors noted that while the financial soundness indicators show that the banking sector appears adequately capitalized, the CBL should enhance its supervisory efforts. They highlighted the need to prioritize strengthening the CBL's supervisory, regulatory, and resolution frameworks in light of the elevated level of nonperforming loans, focusing on measures that improve loan underwriting standards.

Directors highlighted the need to improve the external position by tightening monetary and fiscal policies, allowing for greater exchange rate flexibility, and raising competitiveness through improvements in the business environment. They welcomed that the authorities' pro-poor agenda focuses on physical and human capital, particularly improving service delivery in health and education.

Directors noted that in the context of the development agenda, aggressive efforts should be made to strengthen governance and reduce corruption. They advised the authorities to upgrade their anticorruption and AML/CFT frameworks in line with international standards.

Directors emphasized that continued efforts to improve the quality and availability of data are essential for Fund surveillance and economic policy making.

Table 1. Liberia: Selected Economic Indicators, 2016–24

	2016		2017	2018		2019		2020	2021	2022	2023	2024
	Est. with previous GDP	Est. with revised GDP	Act.	2018 AIV	Est.	2018 AIV	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percent change)												
Real sector												
Real GDP	-1.6	-1.6	2.5	3.2	1.2	4.7	0.4	1.6	1.3	-1.3	-0.5	3.7
<i>of which, Mining &amp; panning</i>	-33.0	-33.0	28.8	22.3	24.2	13.1	13.2	9.7	6.8	6.6	5.6	6.0
<i>of which, Non-mining</i>	2.6	2.6	0.2	1.1	-1.3	3.6	-1.4	0.2	0.3	-2.7	-1.7	3.3
Nominal non-mining per capita GDP (U.S. dollars)	460	724	695	484	657	577	635	618	609	604	594	613
Nominal GDP (millions of U.S. dollars)	2101	3277	3284	3341	3249	3542	3221	3217	3266	3437	3499	3712
Inflation												
Consumer prices (annual average)	8.8	8.8	13.2	11.7	20.4	10.5	24.5	20.5	17.5	24.5	24.0	13.5
Consumer prices (end of period)	12.5	12.5	13.9	11.0	27.0	10.0	22.0	19.0	16.0	33.0	15.0	12.0
Population (millions)	4.2	4.2	4.4	4.9	4.5	5.0	4.6	4.7	4.8	4.9	5.1	5.2
(Percent of GDP, fiscal year)												
Central government operations <sup>1</sup>												
Total revenue and grants	52.0	33.3	31.0	28.2	26.0	28.3	28.0	28.4	28.7	28.2	28.6	28.3
Total revenue	21.8	14.0	14.3	12.9	13.0	13.6	13.7	14.1	14.5	14.7	14.8	14.9
Grants	30.2	19.3	16.7	15.2	13.0	14.7	14.3	14.2	14.2	13.5	13.8	13.4
Total expenditure and net lending	56.2	36.0	35.8	33.3	31.5	33.4	34.1	35.2	35.6	34.2	34.7	34.3
Current expenditure	35.7	22.9	22.9	22.1	21.3	22.1	22.8	23.2	22.7	20.9	20.2	20.1
Capital expenditure	20.5	13.1	12.9	11.3	10.2	11.3	11.3	12.0	12.9	13.3	14.4	14.2
Overall fiscal balance, including grants	-4.2	-2.7	-4.8	-5.2	-5.5	-5.1	-6.1	-6.8	-6.9	-6.0	-6.1	-6.0
Overall fiscal balance, excluding grants	-34.4	-22.0	-21.5	-20.4	-18.6	-19.8	-20.4	-21.1	-21.1	-19.5	-19.9	-19.4
Financing gap / unidentified financing	0.0	0.0	0.0	-0.4	0.0	-1.5	-0.9	-1.1	-0.6	-0.9	-0.7	0.0
Public external debt <sup>2</sup>	28.0	18.0	22.7	26.3	26.3	29.9	34.1	38.6	42.2	47.5	52.5	55.4
Public domestic debt <sup>3</sup>	n.a.	n.a.	n.a	n.a.	12.7	8.0	14.4	15.8	16.5	15.8	14.1	12.2
<i>of which, Central Bank of Liberia</i>	n.a.	n.a.	n.a.	n.a.	10.6	n.a.	11.9	13.4	14.8	13.9	13.1	12.3
(Percent, unless otherwise indicated)												
M2/GDP	32.0	20.5	19.9	19.9	21.3	19.9	23.6	24.5	24.8	24.2	23.9	20.3
Credit to private sector (percent of GDP)	19.9	12.8	14.6	15.8	15.4	16.4	16.4	16.8	16.9	15.6	14.8	14.1
Credit to private sector (annual percent change)	2.3	2.3	14.7	10.0	4.2	10.0	5.3	2.4	2.4	-2.9	-3.7	1.6
Velocity (GDP-to-M2)		4.7	4.8	5.0	4.6	5.0	4.2	4.1	4.0	4.1	4.2	4.9
Money multiplier (M2/M0)		4.1	3.7	3.9	4.2	4.0	3.9	3.9	3.9	3.9	3.9	3.9
(Percent of GDP, unless otherwise indicated)												
External sector												
Current account balance												
including grants	-28.9	-18.6	-23.4	-22.4	-23.4	-22.3	-23.3	-23.1	-24.4	-16.4	-17.2	-16.7
excluding grants	-73.6	-47.2	-43.6	-39.0	-38.5	-36.4	-37.6	-37.4	-38.4	-29.9	-30.9	-29.8
Trade balance	-43.9	-28.2	-20.2	-18.2	-18.5	-17.5	-14.7	-13.5	-13.7	-9.0	-9.3	-9.3
Exports	18.1	11.6	13.0	12.9	16.7	12.4	18.0	19.6	21.0	20.6	21.1	21.3
Imports	-62.0	-39.8	-33.2	-31.1	-35.2	-29.9	-32.7	-33.1	-34.7	-29.5	-30.4	-30.6
Grants (donor transfers, net)	44.6	28.6	20.2	16.6	15.0	14.1	14.3	14.3	14.0	13.6	13.7	13.1
Financing gap ( - deficit / + surplus)	0.0	0.0	0.0	-0.6	-0.5	-1.1	-1.0	-0.9	-0.8	-0.8	-0.6	0.0
Gross official reserves (millions of U.S. dollars)	453	453	407	405	358	429	261	173	87	84	85	87
<i>Months of imports of goods and services<sup>4</sup></i>	3.2	3.3	3.3	3.0	3.0	3.1	2.1	1.3	0.8	0.7	0.7	0.6
CBL's net foreign exchange position (millions of U.S. dollars)	165	165	128	124	106	164	-3	-61	-113	-77	-36	2

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

<sup>1</sup> Central government operation is based on a commitment basis and refers to the budgetary central government operations and off-budget projects. Fiscal year refers to July 1 to June 30.

<sup>2</sup> Ratios are calculated using external debt (in USD) evaluated at the end of period exchange rate over GDP (in USD) evaluated at the period average exchange rate.

<sup>3</sup> Including the central government debts from the Central Bank of Liberia.

<sup>4</sup> In months of next year's imports excluding imports related to UNMIL operations and FDI projects such as iron-ore concessions.



# LIBERIA

## STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

May 16, 2019

### KEY ISSUES

**Context.** Liberia remains a fragile, post-conflict country with weak capacity and limited physical and human capital accumulation. External assistance to Liberia is winding down from its peak in 2016. To address pressing needs, the government launched its Pro-Poor Agenda for Prosperity and Development (PAPD), focusing on physical and human capital accumulation. Policy uncertainty and slippages, however, imposed a significant toll on the economy over the past two years. Particularly, higher fiscal deficits and accommodative monetary policy have led to rapid depreciation of the Liberia dollar and increased inflation, eroding the purchasing power of the poor.

**Outlook and Risks.** The near- and medium-term outlook under the baseline scenario is challenging. Growth is projected to slow further to about 0.4 percent in 2019 and remain below 2 percent into the medium-term. In the baseline scenario, the authorities face the possibility of a forced, abrupt adjustment when domestic and external financing options are exhausted. An alternative reform scenario is therefore presented as a more viable alternative, in which growth weakens somewhat in the near term, due to proactive fiscal and monetary tightening, but picks up significantly over the medium term to exceed 5 percent by 2024.

**Policy Recommendations.** In the current situation, macroeconomic stability needs to be the priority in the short-term. This will require not only monetary tightening, but also adopting a realistic fiscal program for the remainder of FY2019 and FY2020. Meeting pressing needs will require not only a re-prioritization of spending away from consumption, but also significant reforms aimed at boosting revenue. Parallel to these efforts, creation of a welcoming business environment is needed to give the private sector enough confidence to pursue physical capital accumulation. In this process, it will be important to safeguard social sector spending, not only for humanitarian reasons, but also to ensure that the pace of human capital accumulation is sufficient to underpin high growth over the medium term.

Approved By  
**Dominique Desruelle**  
 (AFR), **Kevin Fletcher**  
 (SPR)

Discussions were held in Monrovia (February 25–March 8, 2019). The mission comprised Ms. Saito (head), Mr. Jenya, and Ms. Tejada, (all AFR), and Mr. Anderson (SPR). Mr. Oestreicher, Resident Representative, and Mr. Deline, Local Economist, assisted the mission. Mr. Jappah (OED) attended the policy meetings. The mission met with President Weah; Minister of Finance and Development Planning Tweah; Central Bank Governor Patray; other senior officials; representatives of the private sector and legislature; and development partners. Ms. Kaze provided research support, and Mr. Magno provided assistance for the preparation of this report.

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## CONTEXT

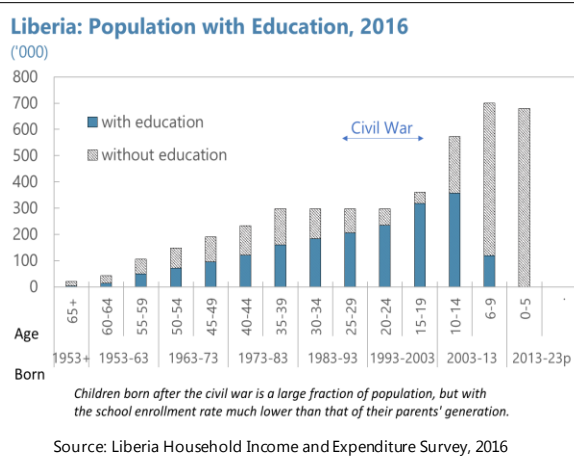
- 1. After one year in office, resource constraints and macroeconomic imbalances are besetting the authorities' efforts to meet the expectations of the population.** The administration launched its Pro-poor Agenda for Prosperity and Development (PAPD) in October 2018 to guide its development efforts for 2018–23. The authorities have sought financing for the PAPD from traditional and nontraditional donors to deliver quickly on their election promises. Though well-intended, this speed has, to an extent, come at the expense of good governance and transparency of key processes (e.g., procurement).
- 2. Liberia is a fragile, post conflict country with weak capacity and limited physical and human capital accumulation.** GDP per capita remains low at US\$663 in 2018. Poverty is widespread, with estimates indicating that 50.9 percent of the population lives below the poverty line. Moreover, frequent shocks coupled with inadequate social services imply that even those above the poverty line have unmet needs and face economic uncertainty. Limited physical and human capital accumulation is also a clear bottleneck to growth (Box 1 and Annex I).

### Box 1. Factor Accumulation Since the End of the Civil Wars

*Economic output depends upon inputs of capital, labor, and technology. Liberia's exit from fragility thus demands lifting all these factors of production.*

**Physical capital.** Basic infrastructure and public service facilities were severely damaged during the two civil wars (Box 1 IMF Country Report 17/172), undercutting efforts to boost economic activity. For example, only 5 percent of roads are paved, with the rest often impassable in the long rainy season. The current administration has prioritized rehabilitation of the road network, but absorption capacity and financing are major challenges.

**Human capital.** The conflict also had a long-term impact on human capital. Younger children are attending school at a lower rate than older generations, partly due to lack of facilities and eligible teachers. Moreover, malnutrition and stunting have remained a serious issue (e.g., 32 percent of children under 5-year old are stunted). Consequently, the ability of the next generation to become active economic participants capable of lifting themselves out of poverty is constrained.



- 3. Liberia is in the midst of adjusting to a lower level of external assistance.** External assistance continues to wind down, from US\$624 million (19.3 percent of GDP) at its peak in FY2016 to US\$461 million (14.3 percent of GDP) in FY2019.
- 4. The key challenge for the administration is to reset and coordinate its policies to restore macroeconomic stability, while freeing up fiscal space to pursue its ambitious development agenda.**

## RECENT ECONOMIC DEVELOPMENTS

**5. Policy uncertainty and slippages adversely affected the economy in 2018.** In the twelve months to December, the exchange rate depreciated by 26 percent and inflation rose to 28 percent (Figures 1 and 2 and Table 1). Despite higher output in the mining sector, growth for the year slowed to 1.2 percent, largely driven by falling demand—as indicated by slower increases in the tax base, import volume, and credit (Figures 2 and 3).

- **The fiscal policy stance has loosened, and fiscal buffers have been depleted.** The fiscal deficit widened from 4.8 percent of GDP in FY2017<sup>1</sup> to 5.5 percent in FY2018, largely due to under performance of revenue and a decline in grants (Tables 3a–3d). Although revenue collection for the first half of FY2019 has improved relative to the same period last year (Figure 4), the total amount collected still represents a shortfall compared to the approved budget. With expenditure remaining largely as approved, further loosening of the fiscal stance is likely by the end of the fiscal year. Government deposits, which were US\$90 million at end-FY2017 (a third in Liberian dollars), have been depleted as of end-2018.<sup>2</sup>
- **The monetary policy stance has been passively accommodative, contributing to inflation.** The monetary impact of the drawdown on the government's Liberian dollar deposits in the first half of FY2019 was partially mopped by sales of foreign exchange of about US\$17 million. The introduction of central bank bills on February 15, 2019 was expected to allow the Central Bank of Liberia (CBL) to tighten monetary policy. So far, the initial uptake has been low.
- **External buffers have been significantly reduced, elevating vulnerability to external shocks.** In 2018, the CBL used US\$49 million to intervene in the foreign exchange market, finance its operations, and lend to the government, reducing gross international reserves to US\$358 million (3 months of imports) at end-2018 from US\$407 million at end-2017 (Figure 1).

## OUTLOOK AND RISKS

**6. Under the baseline scenario (unchanged policies), the near- and medium-term outlook is now worse than anticipated at the time of last year's Article IV consultation.**

- **Growth for 2019** has been revised down from 4.7 percent to 0.4 percent. Both mining and non-mining growth are projected to contract due to continued policy uncertainty and a slower expansion of private sector credit.

<sup>1</sup>The fiscal year runs from July 1 to June 30.

<sup>2</sup>The depletion included the use of funds earmarked for projects to meet current spending needs.

- The slow pace of factor accumulation will continue to hinder **medium-term growth**—while the rapid increase in the working-age population may spur economic expansion, the low level of human capital and slow pace of job creation will undermine the full potential of this benefit (Annex I). At the same time, private sector investment may be held back due to an inadequate and uncompetitive business climate, policy uncertainty, and concerns about governance and corruption (Annex II).
- The External Sector Assessment indicates Liberia’s **external position** is substantially weaker than consistent with medium-term fundamentals and desirable policy settings (Annex III). The current account deficit remains large at 23.4 percent of GDP in 2018 and, using the External Balance Assessment (EBA) Lite methodology, the current account is judged to be weaker than the norm by between 5 and 10 percent of GDP.
- The Debt Sustainability Analysis (DSA) suggests that Liberia will remain at **moderate risk of debt distress**. External debt at end-FY2018 was US\$859 million (29.3 percent of GDP). The baseline scenario assumes an increase of about \$1.24 billion over the medium term. Liberia would edge closer to an elevated risk of debt distress with only minor change in the terms of debt.

**7. Risks are tilted toward the downside** (Annex IV). The main upside risks are increases in commodity prices, iron ore production, and donor grants to finance PAPD projects. The main downside risks emanate from insufficient fiscal consolidation, where failure to mobilize additional resources or cut nonproductive spending to eliminate borrowing from the CBL continues to elevate inflation leading to deterioration of the living standards of the poor and vulnerable. An additional risk is that an over-reliance on high-cost external loans could lead to a rising risk of debt distress. External risks include a drop in commodity prices, and a deterioration in the economies of major trading partners. They have agreed to strengthen the capacity of the Central Bank by recapitalizing the Bank to enable it conduct effective monetary policy.

### **Authorities’ Views**

**8. The authorities shared staff’s view of the nature of the risks they faced.** They agreed that further declines in aid would worsen the fiscal position, and that failure to sufficiently adjust their fiscal program to eliminate central bank financing would exacerbate the economic situation and possibly lock the country into a high-inflation scenario. They noted, however, that the measures already undertaken to cut spending, including by capping wages and salaries at the top of the public service, had strengthened the fiscal stance. The authorities also agreed that a global slowdown impacting commodity prices and remittances would adversely affect both growth and exports, although they felt the effect of this would be hard to quantify a priori.

## **POLICIES FOR ECONOMIC STABILITY AND GROWTH**

**9. Staff presented the authorities with two scenarios to highlight the consequences of different policy choices.**

- **The baseline scenario** assumes unchanged policies, is expected to exacerbate macroeconomic imbalances, and leads to a forced, rapid, and disruptive adjustment. Under this scenario, the annual average growth rate would remain below 2 percent over the medium term, highlighting the cost of macroeconomic instability.
- **A reform scenario** (Text Table 1, Annex V) assumes the implementation of the policy recommendations of the 2018 Article IV consultation, though traction of those recommendations thus far has been limited (Annex VIII). With the adoption of a comprehensive package of reforms—including a combination of fiscal and monetary tightening and structural policies—growth will exceed 5 percent by 2024. However, a financing gap remains even in this scenario, highlighting the need for external support.

The policy advice in the following subsections underpin the reform scenario.

**Text Table 1. Liberia: Selected Economic Indicators, 2019–24**  
(Percent of GDP, unless otherwise noted)

	2019	2020	2021	2022	2023	2024	Adjustment (2019-24)
<b>Baseline Scenario</b>							
Real GDP annual percent change <sup>1</sup>	0.4	1.6	1.3	-1.3	-0.5	3.7	
of which, non-mining sector	-1.4	0.2	0.3	-2.7	-1.7	3.3	
Inflation (annual average)	24.5	20.5	17.5	24.5	24.0	13.5	
Revenue and grants	28.0	28.4	28.7	28.2	28.6	28.3	0.3
of which, revenue	13.7	14.1	14.5	14.7	14.8	14.9	1.2
Expenditure	34.0	35.2	35.6	34.2	34.7	34.3	0.2
Off-budget expenditure	18.1	18.8	19.5	19.6	20.1	19.7	1.5
On-budget primary expenditure	14.9	15.0	15.0	13.1	12.6	12.5	-2.4
Interest payment	1.0	1.3	1.1	1.5	1.9	2.0	1.0
Overall balance	-6.1	-6.8	-6.9	-6.0	-6.1	-6.0	0.1
Primary balance	-5.1	-5.5	-5.8	-4.4	-4.1	-4.0	1.1
Fiscal financing gap	-0.9	-1.1	-0.6	-0.9	-0.7	-0.6	
Fiscal financing gap (millions of U.S. dollars)	-30	-35	-20	-30	-25	-20	
Public external debt	34.1	38.6	42.2	47.5	52.5	55.4	
Public domestic debt	14.4	15.8	16.5	15.8	14.1	12.2	
Gross official reserves (millions of U.S. dollars)	261	173	87	84	85	87	
Months of imports of goods and services	2.1	1.3	0.8	0.7	0.7	0.6	
CBL's net foreign exchange position (millions of U.S. dollars)	-3	-61	-113	-77	-36	2	
<b>Reform Scenario</b>							
Real GDP annual percent change <sup>1</sup>	-1.4	1.4	3.4	4.2	4.9	5.4	
of which, non-mining sector	-3.4	0.0	2.7	3.8	4.8	5.3	
Inflation (annual average)	18.5	8.5	6.5	5.5	5.0	5.0	
Revenue and grants	27.9	27.9	27.6	27.1	26.4	25.9	-2.0
of which, revenue	13.7	14.2	15.2	15.8	16.4	16.8	3.1
Expenditure	34.0	33.6	30.7	29.6	29.2	28.5	-5.5
Off-budget expenditure	18.1	18.1	16.1	15.1	14.2	12.9	-5.3
On-budget primary expenditure	14.9	14.6	13.7	13.7	13.9	14.5	-0.4
Interest payment	1.0	0.9	0.9	0.8	1.0	1.1	0.1
Overall balance	-6.1	-5.7	-3.0	-2.5	-2.8	-2.6	3.5
Primary balance	-5.1	-4.8	-2.2	-1.7	-1.7	-1.5	3.6
Fiscal financing gap	-0.9	-1.7	-0.7	0.0	0.0	0.0	0.9
Fiscal financing gap (millions of U.S. dollars)	-30	-55	-25	0	0	0	
Public external debt	34.0	37.2	39.2	40.4	41.8	43.1	
Public domestic debt	14.4	15.7	15.1	13.5	11.9	10.4	
Gross official reserves (millions of U.S. dollars)	310	316	311	331	356	381	
Months of imports of goods and services	2.7	2.6	2.4	2.5	2.5	2.5	
CBL's net foreign exchange position (millions of U.S. dollars)	38	59	69	107	151	192	

Source: IMF staff projections.

<sup>1</sup>GDP growth and gross official reserves are calendar year whereas other variables are fiscal year.

**Baseline scenario.** The baseline assumes that the government continues to borrow both in local and foreign currencies from the Central Bank of Liberia (CBL) and abroad to finance its fiscal deficits until the authorities face an abrupt forced adjustment, triggered for example by a significant loss of gross official reserves. The timing and the impact of the abrupt adjustment is uncertain. The CBL is a passive agent without active monetary policy.

**Reform scenario.** To eliminate central bank financing and to prevent a further buildup of domestic arrears and debt service burden, the reform scenario assumes that the GOL will:

- 1) Contain an increase in on-budget primary expenditure (in particular, wage bills) in the near term, but also avoid debt service crowding out social spending in the medium term; and
- 2) Borrow less (i.e., new loan disbursements of US\$85 million per year instead of US\$145 million per year), with less off-budget project-related spending; and
- 3) Mobilize revenue by about 3 percentage points of GDP in the medium term (compared to 1¼ percent of GDP in the baseline). The combination of 1)-3) will bring the primary deficit to 1.5 percent of GDP, which is the debt-stabilizing primary deficit under the reform scenario.

To stabilize the gross official reserves path and to bring inflation down, the reform scenario assumes that the CBL will:

- 4) Mop up Liberian Dollar liquidity by using new monetary policy instruments (SDF and CBL bills), initially up to L\$5,000 million (about US\$32 million) at a nominal interest rate of about 28 percent;
- 5) Cut CBL operational costs in line with the three-year budget plan;
- 6) Shift CBL expenditure to Liberian dollar (e.g. pay half of CBL wage bill (US\$6 million) currently paid in USD in Liberian dollar;
- 7) Receive additional interest payments from GOL of US\$ 15 million initially; and
- 8) Auction 100 percent of surrender receipts while the foreign exchange interbank market is still shallow (no more net injection of LD liquidity)

## A. Fiscal Policy

### Background

**10. The FY2019 budget is no longer credible.** The revenue outturn for FY2019 is estimated at \$475 million (14.7 percent of GDP), close to US\$100 million lower than the approved budget of US\$570 million (17.6 percent of GDP). With projected revenues and grants for the remainder of the fiscal year yielding a very tight expenditure envelope, staff considers that the risk of deficit spending accommodated by central bank financing or arrears accumulation to be elevated. Staff also noted that the decision *not* to seek a Legislature-approved recast budget may have further undermined budget credibility and raised the risk that efficient resource allocation will be adversely impacted by *ad hoc* lobbying from the more influential spending entities.

**11. In the absence of significant policy action, the fiscal policy stance will remain loose in FY2019 and in FY2020.** External assistance is projected to decline by 1 percentage point of GDP over the medium term (from 14.3 percent in FY2019 to 13.4 percent in FY2024), while domestic revenue is projected to increase only enough to offset the decline in external assistance (from 13.7 percent in FY2019 to 14.9 percent in FY2024).<sup>3</sup> This implies that unless the current level of expenditure (projected at 34.1 percent of GDP for FY2019) adjusts downward, the fiscal deficit will remain at or above 6 percent of GDP.

**12. Structural rigidities within the budget severely limit the ability to satisfy social needs or act as an effective development tool.** Almost two thirds of total budget expenditure are accounted for by the wage bill, which now represents about 10 percent of GDP, compared to 7 percent of GDP among regional peers. Moreover, over 40 percent of compensation payments are paid in the form of discretionary allowances, creating both inequity and inefficiency (Annex VI). For example, the share of the wage bill that is allocated to core clinical health workers or qualified teachers is only a small fraction of the total wage bills. This is a long-standing structural issue, but one that has become increasingly acute and visible in recent years, as external assistance has declined, and on-going reforms aimed at standardizing employment contracts for workers in education and health has increased costs.

### Policy Advice

**13. The overall fiscal program needs a significant adjustment.** The fiscal adjustment that comprises mobilizing domestic revenue, rationalizing the wage bill, and securing social and capital spending (¶16) needs to be sustainable in the medium term. In this regard, the debt-stabilizing primary balance could be a potential fiscal anchor going forward (Text Table 1).

**14. Basing the FY2020 budget on realistic revenue projections is critical to enhance budget credibility and achieve efficient allocation of resources.** The approved budget should be based on the previous year's outturn, instead of past budgeted amounts, to guarantee availability of funds

<sup>3</sup>This projection assumes that the effectiveness of revenue collection will remain intact.

for essential services. When significant deviations from the budget are warranted, these should be supported by a recast budget approved by the Legislature that seeks to allocate the available resources transparently and efficiently. If borrowing to fill the financing gap is unavoidable, this should be limited to the extent possible, and sourced from the domestic private sector rather than the central bank.

**15. To create much needed fiscal space, the long-overdue civil service reform is essential.**

As envisaged in the Pro-Poor agenda and several civil service reform strategies and initiatives, Liberia should speed up the process of cleaning up the payroll by removing already identified ghost workers from the education sector and extending this valuable exercise to other sectors. In addition, Liberia should centralize employment hiring at the Civil Service Agency (CSA), and explore the possibility of taxing consolidated income from all sources—wages, general allowances and special allowances.

**16. It is equally important to safeguard social spending, given the pressing need to build human capital.**

The infrastructure investment envisaged in the PAPD will generate a muted growth dividend, if it is not balanced with human capital development (Annex I). Liberia should improve its school enrollment rate, especially of elementary level education, and secure sufficient qualified teachers and core clinical health workers (Annex VII). Improving education and health not only requires securing total spending on these sectors, but also improving the quality of spending.

**17. Given the declining trend in external assistance, Liberia must continue its efforts to mobilize domestic revenue, with due consideration for its administrative capacity.**

The government completed its medium-term revenue strategy in November 2018. In the near term, tax policy reforms should be limited to existing taxes, including expanding the base for goods and services, excise, and customs taxes, while the introduction of new taxes like VAT should be a medium-term goal, as it will be too demanding to implement in the near-term. On tax administration, the Liberia Revenue Authority (LRA) should: (i) secure an appropriate IT system to support core processes; (ii) fully implement the compliance risk strategy to boost tax compliance; and (iii) cleanse the taxpayer register and taxpayer's ledger to ensure accuracy. A comprehensive review of tax exemptions and concessions is also important.

**18. Further progress in public financial management (PFM) reforms can also play a critical role in improving the quality of spending in a resource-constrained environment.**

The amended PFM Act was submitted to the Legislature in November 2018 and, among other changes, seeks to streamline responsibilities among the Minister of Finance, the Comptroller and Accountant General, and the heads of Ministries and Agencies. Beyond this, recent efforts have been concentrated on: (i) stabilizing the Integrated Financial Management Information System (IFMIS), as well as the LRA's IT system; (ii) certifying public procurement officers working in line ministries; and (iii) publishing a dashboard tracking public investment projects. Progress on PFM reforms should be accelerated by focusing on reforms that can be accommodated within the available resources. The monthly liquidity management committee meetings should resume and the reconciliation of the remaining balances in the clearing account should be completed as soon as possible to improve cash management. In addition, the government should prioritize implementation of past audit and technical assistance reports.

**19. Borrowing is a viable option, given the pressing need to build infrastructure, but fiscal policy should remain anchored on debt sustainability over the medium-term.** Liberia should refrain from non-concessional borrowing and risky collateralized agreements, and ensure new debt is contracted transparently. Extension of central bank credit should also be avoided as this would widen macroeconomic imbalances.

### ***Authorities' Views***

**20. The authorities broadly agree on the need to reduce fiscal risk and, despite high current spending needs, believe that a reasonable amount of fiscal adjustment is feasible in the short term.** Consequently, draft budget projections for FY2020 have been revised downward, but remain above staff estimates. For the remainder of FY2019, the authorities preferred to avoid the additional workload of passing a recast budget through the Legislature. They chose instead to discuss directly with line Ministries and Agencies a budget execution strategy aimed at streamlining expenditure for the remaining months of the fiscal year. The authorities hope to minimize the use of additional domestic borrowing to fill the financing gap, but consider that some borrowing might be inevitable.

**21. The government remains committed to advancing PFM reforms but highlighted the challenging environment.** They plan to launch the Domestic Revenue Mobilization strategy in the near-term and are in the process of identifying measures that can increase tax yields starting in FY2020. Moreover, they recognize that accelerating PFM reforms would eventually help to mitigate funding constraints. The authorities also highlighted recent achievements and their commitment to identify further initiatives that can improve expenditure control practices and fiscal reporting.

**22. The authorities recognize the significant burden posed by the size of the wage bill.** They are exploring ways of reducing it and shifting resources towards much-needed social and infrastructure expenditure.

## **B. Monetary Policy and Exchange Rate Policies**

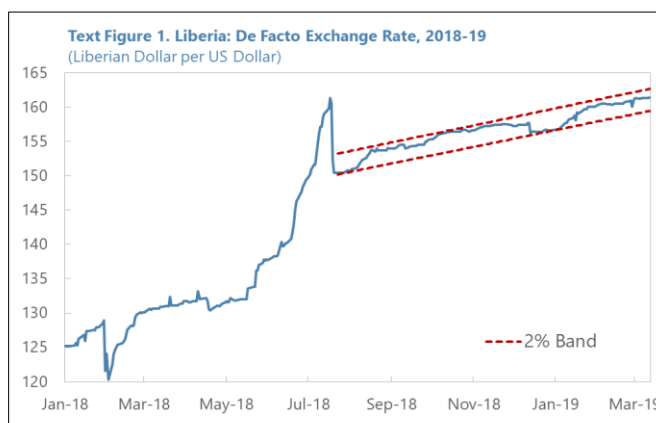
### ***Background***

**23. The CBL has introduced a new monetary policy framework.** On February 15, 2019, the CBL started selling CBL bills to the public; introduced the Standing Deposit Facility (SDF), and the Intra-Day Liquidity Facility (ILF); and replaced the 2016 guideline on the Standing Credit Facility (SCF). Collectively, these changes should allow the CBL to tighten monetary conditions and move towards an interest rate-based monetary framework. The introduction of SDF should over time translate into an increase in retail deposits rates, giving Liberian dollar the “store of value” function of money and bringing currency in circulation, currently mostly outside of the banking system, into the banking system. The CBL is initially prepared to absorb up to LD5 billion using CBL bills, of which banks will be permitted to buy up to LD2 billion with the remainder reserved for retail investors. These bills are being sold through commercial banks on a commission to achieve broad market

access. The CBL is also in advanced stages of introducing a monetary policy advisory committee that will be responsible for advising the CBL Board in advance of policy decisions.

**24. The cost of the mopping up exercise, however, can be significant.** The interest rate on the CBL bills has been initially set at 7 percent, and is indexed to the U.S. dollar. Thus, the cost of mopping up liquidity can be significant if the exchange rate continues to depreciate.

**25. The Liberian exchange rate is now classified as a de facto “crawl like” peg, rather than “other managed”.** In July 2018, the CBL was mandated to use US\$25 million of its reserves, over and above the proceeds from the 25 percent surrender requirement on remittances, to support the exchange rate (Text Figure 1). US\$17 million of its reserves have been used for this purpose.



**26. The CBL’s claims on the government in U.S. dollar significantly increased in the last two years.** The amount of checks government issued in the absence of adequate funds increased in recent years in the form of balances outstanding in the suspense/clearing accounts. As of end-2018, the CBL’s claims on the government in U.S. dollar is US\$355 million, which is a significant increase from US\$260 million at end-2016.

**27. The CBL’s U.S. dollar-denominated budget deficits have continued to increase in recent years.** The CBL currently projects deficits of US\$29.1 million and US\$30.1 million in 2019 and 2020. If deficits turn out as projected, they will drain US\$49.2 million from reserves over the next two years with the balance financed in local currency. Staff also noted that the past deficits posted over 2017 and 2018 were significantly higher than the 3-year budget prepared in 2015 for 2016–18.

**28. The safeguards framework at the CBL continues to be weak.** Previous safeguards assessments have highlighted serious governance and control issues at the central bank. Some of the safeguards recommendations were addressed through a forensic audit of CBL losses stemming from the failure of the First International Bank of Liberia Limited (FIBLL), steps to strengthen the investment policy for reserves management, and monitoring of foreign exchange inflows to and outflows from the CBL. Other long-standing recommendations, including those related to currency operations and internal audit, are included in the Action Plan from the FIBLL investigation. More recently, new risks have emerged in the areas of autonomy, governance, and currency operations. The CBL Board continues to operate with acting members without stable appointments, which undermines their personal autonomy. Lending to the government has been in breach of legal provisions. Advancement of the Action Plan has been slow. Two investigative reports by the Presidential Investigative Team (PIT) and Kroll Associates on currency operations (released in February 2019) did not find hard evidence of large-scale theft of newly printed banknotes, as had

been reported in the local media. However, they did note significant discrepancies and weak controls at all stages of the currency procurement and storage process.

### **Policy Advice**

**29. Several preconditions need to be satisfied for the new monetary policy framework to function properly and effectively.** While the new tools represent significant additions to the CBL's policy tool kit, they will only be effective if fiscal policy is tightened to avoid CBL financing. The CBL should keep the interest rate of the SCF high enough to prevent banks from arbitraging CBL instruments, while keeping it low enough to be accessible for banks. Moreover, to ensure the effectiveness of monetary policy: (i) the government should include the cost of monetary operations in the budget; and (ii) close fiscal gaps without using central bank credit. In the absence of the conditions outlined in (i) and (ii), pursuit of monetary policy goals through this means would be ineffective and expensive, and staff advised the CBL to cease these operations until the required preconditions are in place.

**30. In line with the CBL Act, the CBL should stop issuing foreign currency credit to the government.** At present, the CBL's main lending channels to the government are U.S. dollar denominated loans and advances. However, use of either of these instruments depletes foreign reserves and leaves excess Liberian dollar liquidity intact, necessitating CBL action to absorb it using other, usually costly, instruments. An alternative modality would be for the government to borrow Liberian dollars from the market, and buy U.S. dollars. The CBL's stock of reserves would still decline, but the operation would tighten overall liquidity conditions.

**31. Liberia should prioritize the passage of the CBL Act amendments to strengthen the CBL's operational independence.** Included in the final bill should be amendments that: strengthen the governance structure of the CBL; create a plan for the recapitalization of the CBL; clarify the prohibition of USD lending to the government; foster the operational independence of the CBL through the creation of a monetary policy committee; prohibit uncollateralized liquidity assistance to commercial banks; and strengthen the external and internal audit framework.

**32. Restrictive measures in the exchange system should be kept to a minimum and, if tolerated, contain a credible exit strategy.** The surrender requirement on remittances inflows is classified by the Fund as a capital flow management measure and staff recommends that the authorities consider this as a temporary arrangement. Staff noted that, in the past, not all the foreign currency received from the surrender requirement was reinjected through the auction. This increased the stock of CBL reserves, but also resulted in a net injection of Liberian dollar liquidity into the system. Going forward, the mission recommends that all the foreign currency acquired through the surrender requirement be returned through the auction.

**33. The safeguards framework at the CBL needs to be substantially strengthened.** Credible steps by the authorities will be needed to address governance issues and to strengthen institutional safeguards. Staff encouraged the authorities to take advantage of available support from the international community to make much-needed remedial actions in these areas. In addition, staff

called for the restoration of term appointments of the non-executive CBL Board members—in line with previous advice.

**34. Considering the declining level of foreign exchange reserves, staff recommended that the CBL revisit its budget for the next two years.** In this regard, efforts to increase CBL revenue should be accompanied by a strong commitment of the CBL Board and its management to control expenditure.

### ***Authorities' Views***

**35. The authorities broadly agree with staff on the need for monetary policy tightening, but not on the risks of using the U.S. dollar-indexed CBL bills.** The CBL views issuance of these bills as necessary to mop up liquidity outside the banking system, even if the government does not absorb the cost of the CBL bills on its budget. They consider that the exchange rate stability that resulted from the mopping-up exercise would limit the cost arising from the indexation. In addition, they intend to use other monetary policy instruments, such as the standing deposit facility and the reserve requirement as part of its monetary operations.

**36. The CBL agrees with the IMF's recommendations on the amendments to the CBL bill.** However, the CBL has yet to complete its internal review of the bill to determine the final amendments that will be submitted to the President for forwarding to the National Legislature.

**37. The CBL also agrees with staff's assessment on the need to consolidate its budget to reduce the resulting drain on foreign exchange reserves.** However, they noted that additional costs may be unavoidable as the bank moves to address weaknesses highlighted in the recent Kroll's Scoping Assessment, the Presidential Investigative Committee, and the General Auditing Commission's (Agreed Upon Procedures) reports regarding the alleged Liberian dollar missing containers and the direct foreign exchange mop up exercise.

## **C. External Sector Policy**

### ***Background***

**38. External vulnerabilities remain elevated (Annex III) and staff assess the external sector position to be substantially weaker than warranted by fundamentals and desirable policies** (¶7). The current account deficit remained high at 23.4 percent of GDP in 2018, with a modest improvement in the trade balance offset by a fall in net income and a decline in net transfers following the United Nations Mission in Liberia (UNMIL) withdrawal. This level is assessed to be weaker than the norm implied by economic fundamentals and desirable policies by between 5 and 10 percent of GDP. Gross international reserves declined further to US\$358 million at end-2018, equal to 3.0 months of imports because of FX interventions, the drawdown of government deposits, and central bank credit to the government. Despite a sharp depreciation of the nominal effective exchange rate of 23.7 percent, high inflation meant that the real effective exchange rate depreciated more modestly in 2018 (by 8.5 percent), limiting the potential gains from changes in relative price

competitiveness. Based on the elasticity of exports and imports to the real effective exchange rate, the EBA Lite current account model indicates a real effective exchange rate overvaluation between 21 and 42 percent.

**39. Little progress has been made in improving competitiveness and the business environment, despite the launch of the high-level Business Climate Working Group.** The business environment remains challenging and uncertain, and domestic businesses struggle to compete with imported goods and services. In the latest Global Competitiveness Index, compiled by the World Economic Forum, Liberia ranked 132<sup>nd</sup> out of 140 economies in terms of overall competitiveness and, consistent with this, the latest World Bank's Ease of Doing Business indicators suggest little progress has been made in improving the regulatory environment. The business community continues to register significant dissatisfaction over several issues, including the delays and uncertainty experienced in importing goods through the Port of Monrovia, as well as the extraneous and sometimes unnecessary costs involved in the process. Other complaints include the difficulties experienced in securing legal redress to disputes and, for fuel importers, uncertainty about the implementation of the fuel pricing mechanism.<sup>4</sup>

### ***Policy Advice***

**40. Improving competitiveness and the business environment remain key priorities.** While the government has undertaken some steps to streamline the importation process, many impediments and costs remain. The government should carefully examine the efficiency of the importation process, the costs involved, and their impact on the level of competitiveness. The mission highlighted the detrimental effect of import permit declarations on retail market competition. Subsequently, an Executive Order was issued in April 2019 removing import permit declarations.<sup>5</sup>

**41. Greater flexibility in fuel prices can minimize the potential for disruptions in supply.** To prevent fuel shortages in the future, the government should (i) consider re-examining retail and wholesale margins and updating them in-line with the current cost structure faced by fuel retailers; (ii) adopt a policy to transparently follow and implement the fuel pricing formula; and (iii) consider using the daily or weekly CBL exchange rate to convert the U.S. dollar price of fuel to Liberian dollars.

**42. Strong policies can help strengthen the external position.** The authorities should facilitate a real effective exchange rate depreciation, in tandem with the required fiscal and monetary tightening (which will help mitigate the inflationary effects of depreciation), by promoting competitiveness and allowing the nominal exchange rate to adjust flexibly. The authorities should

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<sup>4</sup>In the current system, the government sets fuel prices monthly according to a formula. However, incomplete adherence to the formula's output, and the outdated nature of some of its parameters have, on occasion, inhibited attainment of full cost recovery and at times led to fuel shortages—such as occurred in the fall of 2018.

<sup>5</sup>As well as removing Import Permit Declarations, Executive Order 96 contained measures on work permits, residence permits, surface rental fees, real estate taxes, and customs duties.

also focus on rebuilding reserves above the reserve adequacy level to increase resilience to external shocks.

### **Authorities' Views**

**43. The authorities agree with the assessment that the real effective exchange rate is overvalued.** In this regard, they noted that an effective remediation—though one of the most challenging—would be to improve the business climate. They therefore agree on the need for structural reforms to improve the ease of doing business and boost the competitiveness of Liberian goods. To this end, they are reviewing, in conjunction with the Business Climate Working Group, which reforms will bring the greatest benefits to the business environment and cited some progress in speeding-up and increasing the transparency of the importation process and providing funding for small- and medium-sized enterprises (SMEs). They also noted that engagement with the Liberian Better Business Forum would further highlight the areas in which the business environment could be improved. As a demonstration of its commitment to this process, the government recently issued Executive Order 96 intended to stimulate the Liberian economy by addressing some of the structural challenges facing the economy.

**44. The authorities believe the current fuel pricing system plays an important role in preventing sharp changes in fuel prices.** However, they accept that persistent deviations from international prices can hurt the profitability of fuel importers and threaten fuel security.

## **D. Financial Sector Policy**

### **Background**

**45. Financial soundness indicators for December 2018 suggest that the banking sector appears adequately capitalized, but lending has slowed, and risks are emerging.** The ratio of nonperforming loans (NPLs) to total loans for the banking sector was 13.8 percent at end-December 2018, above the regulatory threshold of 10 percent, with one bank reported to have breached the minimum capital requirement. The CBL has engaged the shareholders of this bank with the aim of having them provide additional capital. The quality of overall banking sector capital is, however, significantly compromised by the sector's direct and indirect exposure to the government through payment arrears. These arrears are estimated at about US\$65 million (14 percent of total loans). To clear the arrears, the government has agreed to issue a bond. In addition, correspondent banking relationships (CBRs) remain low, averaging about 2 CBRs per bank (excluding 2 of the largest banks that have 5 or more CBRs), elevating financial sector risks.

**46. The banking sector faced an acute shortage of Liberian dollars in December 2018.** With rising inflation, the demand for banknotes increased in the last few years, while the time the CBL needs to obtain a Legislative approval and to print new banknotes remained long. As a result, when seasonal spikes in demand for banknotes occurred in December, the banking sector faced a shortage. The CBL suspended the surrender requirement temporarily so that the CBL did not have to exchange 25 percent of remittances into Liberian dollars. The shortage of banknotes has since eased.

**Policy Advice****47. The CBL should enhance its supervision to deal with risks in the financial sector.**

Amendments to the Financial Institutions Act (FIA), which is included in the CBL Action Plan, are needed to strengthen the legal framework for bank supervision and resolution, including compliance with AML/CFT regulations and Basel III. However, the process of amending the Act is in its preliminary stages and has moved slowly. Staff has carried out a desk review of the FIA and urged the authorities to accelerate the full implementation of the CBL Action Plan to fully address the regulatory and governance weaknesses that came to light with the collapse of FIBLL. To deal with the elevated level of NPLs, the CBL should ensure adequate provisioning of loans and improving underwriting standards. The oversight of the use of the emergency liquidity facility should remain strong.

**48. The issuance of the CBL bills needs close monitoring to safeguard against AML/CFT concerns and financial stability.** Selling through banks minimizes AML/CTF concerns relating to the identification of bank customers, but does not address these concerns for those who are not the banks' regular customers. To address these concerns, banks (acting as agents) should apply the same AML/CFT measures that they normally apply to their customers.

**49. Developing financial market infrastructure is important to make the interbank market more functional and efficient.** In addition to setting appropriate interest rates for the new Standing Deposit and Standing Credit facilities (¶29), monetary policy instruments need the right infrastructure. For example, the CBL should aim to automate the collateral management system and ensure that an appropriate legal environment is in place.

**50. The CBL should develop a plan to guarantee availability of Liberian dollars during periods of peak demand.** In this regard, the CBL should examine the likely evolution of demand for Liberian dollar cash, and evaluate whether the printing of additional currency to hold as a buffer stock against a surge in demand is warranted.

**Authorities' Views**

**51. The authorities are aware of the risks facing the banking sector and are determined to resolve them.** With the full implementation of risk-based supervision, they believe that more resources are being devoted to the oversight of the weaker banks. For the one bank that is below the minimum capital requirement of US\$10 million (although the capital adequacy ratio is far above the minimum requirement), the authorities expect that their engagement with the shareholders will result in recapitalization up to statutory limits.

**GOVERNANCE ISSUES**

**52. To enhance transparency and accountability, Liberia should step up efforts to strengthen governance and reduce corruption.** The PAPD recognizes this need across a wide range of government activities. The agenda outlined in the PAPD is far reaching, but aggressive implementation will be needed to deliver meaningful change. In this regard, the authorities should

upgrade their anti-corruption and AML/CFT frameworks in line with international standards. They should also ensure the effective implementation of the anti-corruption measures set out in the PAPD, notably by enhancing the Liberia Anti-Corruption Commission's (LACC) powers of investigation and prosecution, and effectively implementing an asset disclosure regime for senior public officials in line with best practices. The LACC should also develop an anti-corruption strategy for the next four years. The authorities are also advised to prioritize the implementation of AML/CFT measures to tackle proceeds of corruption—notably by strengthening fit and proper provisions when licensing financial institutions; improving requirements to ensure that competent authorities readily have access to adequate, accurate, and timely information concerning the legal persons they deal with; continuing to improve the implementation of risk-based supervision; and issuing a regulation on opening and managing accounts of politically exposed persons. Proper implementation of the Land Rights Act will also ensure the robustness of property rights and improve and encourage foreign investment.

### **Authorities' Views**

**53. The authorities have expressed their commitment to enhance anti-corruption and anti-money laundering efforts and improving governance.** Notably draft amendments to anti-corruption laws and anti-money laundering laws and regulations are being prepared. In addition, the PAPD sets out some of their key institutional reform agenda which includes the enhancements of LACC's enforcement powers, full implementation of asset declaration requirements and recommendations from GAC audits.

**54. The authorities have expressed that they remain committed to the autonomy of the Central Bank in the pursuit of its objectives and the performance of its functions.** The CBL shall remain autonomous and accountable as provided for in its Act. The CBL and the members of its decision-making body and staff, in the exercise of their functions are not taking instructions from any person or entity, including Government entities.

## **STATISTICAL ISSUES**

**55. Partly driven by capacity constraints (Annex IX), the quality of statistics remains a concern, but recent efforts to improve classification of monetary and fiscal data are encouraging and should be sustained.** Due to the misclassification of some items on the CBL's balance sheet, it is currently difficult to quantify the CBL's lending to government. However, the authorities are now reclassifying the CBL balance sheet in line with the IMF's Monetary and Financial Statistics Manual and Compilation Guide (2016), with the support of IMF technical assistance. The CBL is also working on improving the sectoral balance sheet of the banking system and intends to start publication of the new monetary survey in June 2019, starting with series stretching from January 2007 to December 2018. Much improvements are also needed in Government Financial Statistics, including the coverage of financial statements of the State-Owned Enterprises.

## STAFF APPRAISAL

**56. Policy uncertainty and slippages adversely affected the economy in 2018.** As of December 2018, the exchange rate had depreciated by 26 percent y-o-y, while inflation accelerated to 28 percent. Overall economic growth slowed to 1.2 percent in 2018, largely driven by declining demand. On current policies, growth is projected to slow further to about 0.4 percent in 2019.

**57. The medium-term outlook under the baseline scenario is challenging and some of the risks to the outlook are high.** The slow pace of factor accumulation, due to lack of private and public investment, will continue to hinder medium-term expansion. The main risks to the outlook are that delayed fiscal consolidation, overreliance on high-cost external loans and a deterioration in the economies of major trading partners/donors.

**58. Conversely, fast tracking the policies outlined in the reform scenario could bring about macroeconomic stabilization and raise growth above 5 percent over the medium-term.** An essential precondition to this policy direction would be a commitment to create the fiscal space needed for the government to function effectively in FY2020 and beyond, including through significant adjustments to the wage bill and a sound borrowing plan that is anchored on debt sustainability. Formulation of realistic budgets (based on economic fundamentals, realistic revenue estimates, and past budget outturns) combined with efforts to raise more domestic revenue would also be key.

**59. The CBL should tighten monetary policy, but the use of U.S. dollar-index bills should be suspended until the fiscal financing gap is closed without CBL financing.** If executed properly, the sale of central bank bills, combined with the use of other facilities have potential to form an effective monetary policy framework, capable of mopping up excess liquidity, influencing the level of excess demand and supply of Liberian dollars, and ultimately controlling inflation. This potential notwithstanding, further issuance of CBL bills should be suspended until the cost of the operation is included in the government budget, and the fiscal financing gap is closed without CBL financing.

**60. The launch of the PAPD is welcome, but its implementation should balance physical with human capital accumulation.** Decisive policy action is required to have children aged 6 to 14 to attend school regularly, and to secure sufficient qualified teachers. In addition, Liberia's position near the bottom among low income countries for per capita health care spending calls for a rationalization of spending to increase the health sector budget and to improve the quality of spending within the health sector. This would include securing sufficient core clinical health workers.

**61. Although the financial soundness indicators show that the banking sector appears adequately capitalized, the CBL should enhance its supervision to deal with risks.** To do this effectively, the CBL needs to prioritize the development of the Financial Institutions Act to strengthen its supervisory, regulatory, and resolution frameworks. In enhancing its supervision, the CBL should focus on improving loan underwriting standards to reduce NPLs. In addition, the CBL should guarantee availability of Liberian dollars during festive seasons when demand for local

currency surges, as this is necessary to maintaining confidence in the banking system and to safeguard its stability.

**62. The external position is substantially weaker than the level implied by economic fundamentals and desirable policies.** Improving the external position requires not only the tightening of monetary and fiscal policies, while allowing for greater flexibility in the exchange rate, but also reforms to improve competitiveness and the business environment. This includes greater flexibility in fuel prices to avoid fuel shortages. The authorities should also focus on rebuilding reserves above the reserve adequacy level to increase resilience to external shocks. In this context, the surrender requirement on inflows of remittances, a capital flow management measure, is appropriate only as a temporary measure to address extraordinary pressure on inflation and reserves.

**63. Fighting corruption as envisaged in the PAPD is critical.** Continued focus on expediency in delivering election promises, not only comes at the expense of institutional integrity, best practice, and process, but also continues to complicate anti-corruption objectives, and risks undermining desired improvements in the transparency and efficiency of government operations.

**64. Data provided to the Fund have serious shortcomings that significantly hamper surveillance.** Quantity and availability of statistics have improved, especially in monetary and fiscal statistics, but efforts should continue in all areas of statistics, national accounts and balance of payments data.

**65. It is recommended that the next article IV consultation takes place on the standard 12-month cycle.**

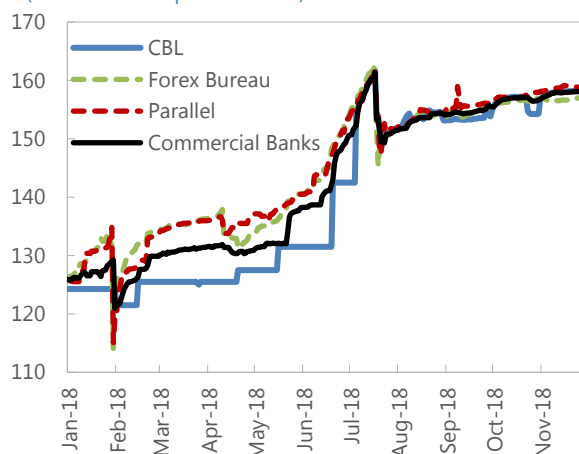
**Figure 1. Liberia: Foreign Exchange Developments, 2017–18**

The exchange rate continues to depreciate, but at a somewhat slower pace since July as a result of Central Bank foreign exchange interventions.

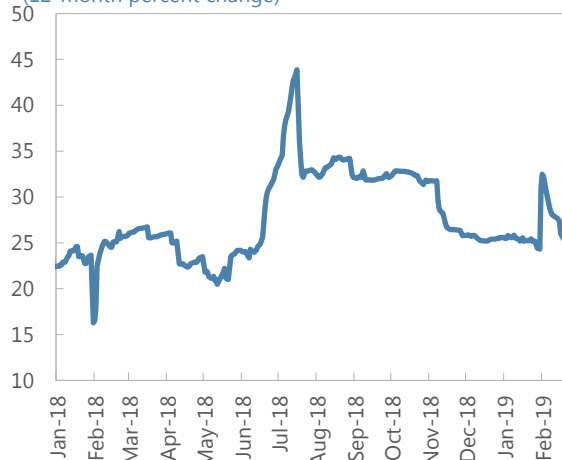
The rate of depreciation has peaked in July but is still at a rate of 26 percent year-on-year as of end-January.

**Liberia: Daily Exchange Rates, 2017-18**

(Liberian Dollar per US Dollar)

**Liberia Daily Exchange Rates, 2018-19**

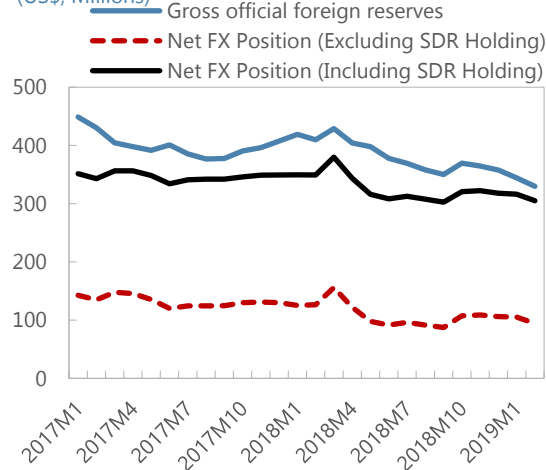
(12-month percent change)



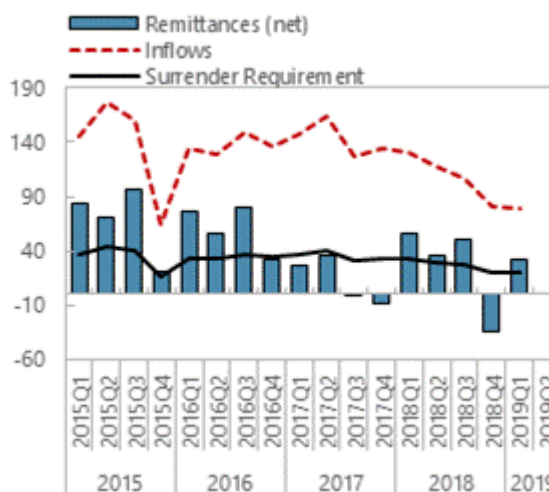
Gross international reserves as of end-November stood at US\$365 million (2.9 months of imports), down from its peak in March 2018 when the World Bank budget support was disbursed. This decline of \$64 million was due to FX interventions (\$47 million) and an increase in net claims on the government. Remittances, the main source of forex inflows to the CBL, have declined in 2018.

**Liberia: Gross Reserves, 2017-19**

(US\$, Millions)

**Liberia: Quarterly Remittances, 2015–19<sup>1</sup>**

(US\$ Millions)

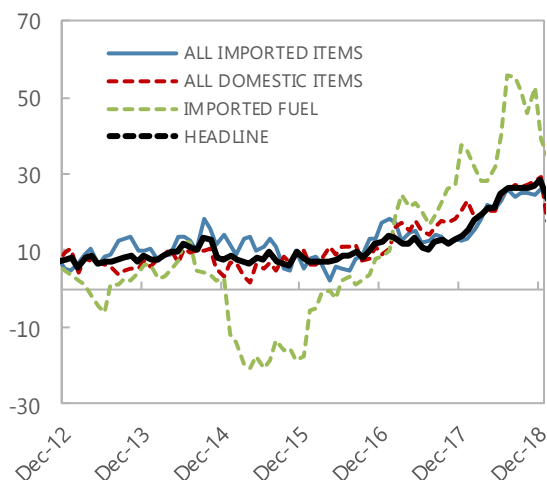


Sources: Central Bank of Liberia; and IMF staff calculations.

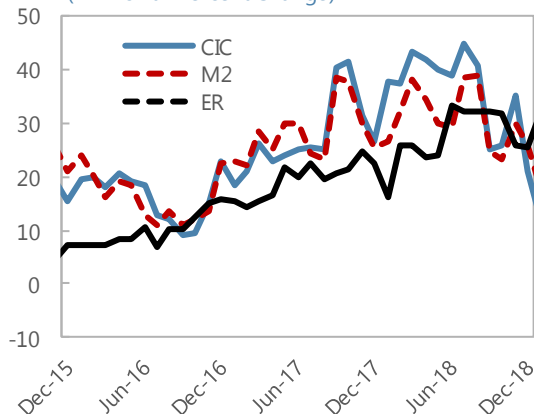
<sup>1</sup>2018Q4 data is based on actual data through end-November 2018 and staff estimations for the remaining months.

**Figure 2. Liberia: Monetary Developments, 2012–18**

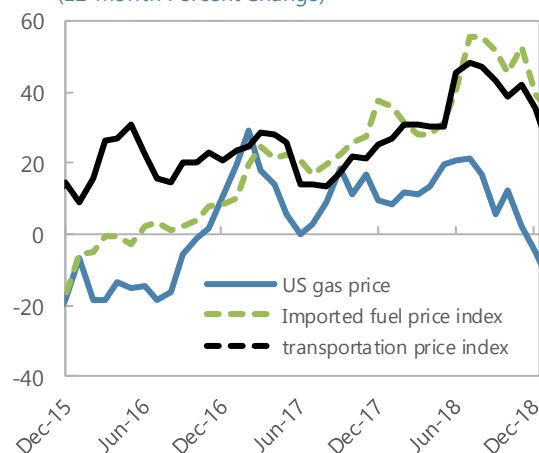
Pressure on inflation remains, with headline inflation at 28.5 percent y-o-y in December 2018, which closely follows developments in the foreign exchange market.

**Liberia: Developments in Prices of Imports, 2015–18<sup>1</sup>**  
(12-month Percent Change)

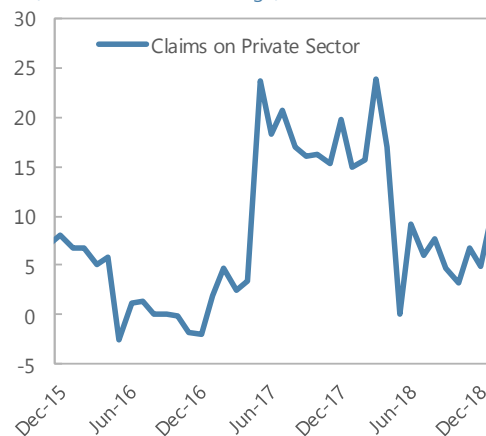
Cash in Circulation (CIC), which is highly correlated with the exchange rate, grew at 21 percent in December 2018. M2 grew at 26 percent.

**Liberia: Cash in Circulation Growth, 2015–18**  
(12-month Percent Change)

Fuel price inflation in Liberian dollars has dropped to 39 percent in December 2018, in line with a recent decline U.S. fuel prices.

**Liberia: Imported Fuel Price, 2015–18**  
(12-month Percent Change)

Private sector credit, largely trade credit, also collapsed in the second half of 2018.

**Liberia: Claims on Private Sector Growth, 2015–18<sup>1</sup>**  
(12-month Percent Change)

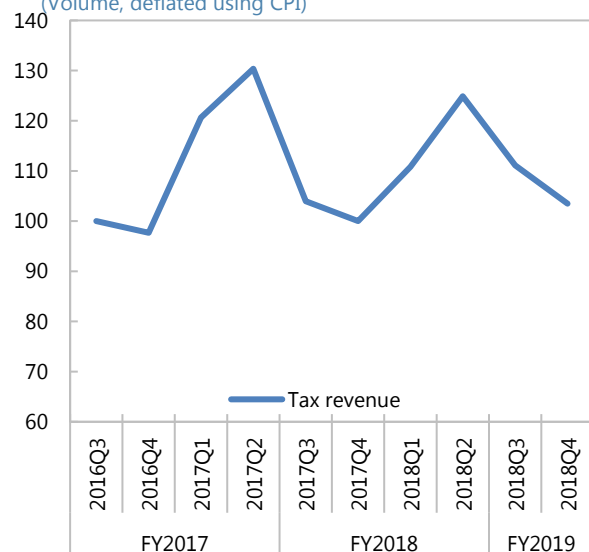
Sources: Central Bank of Liberia; and IMF staff calculations.

**Figure 3. Liberia: Recent Economic Developments, 2016–18**

Data to capture recent economic activity are limited in Liberia, but there are a few leading indicators. First, the tax base on international trade has declined since 2018Q2.

**Liberia: Tax Revenue Performance**

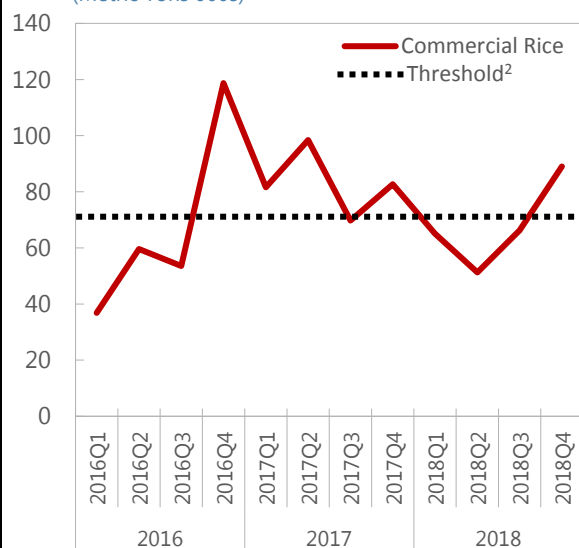
(Volume, deflated using CPI)



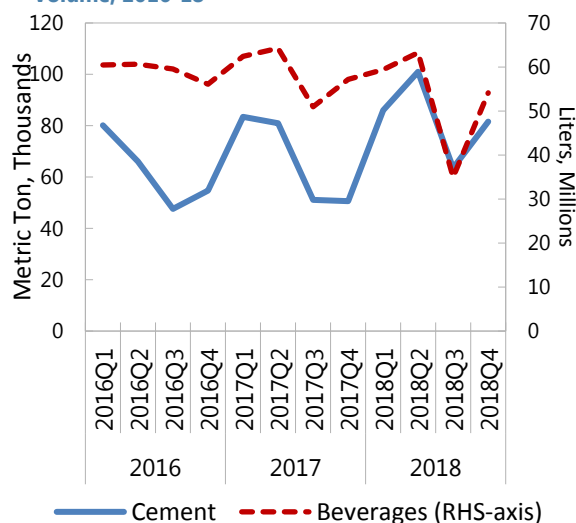
In contrast, imports of staple goods have declined, with a 20 percent decline in imports of rice in 2018...

**Liberia: Quarterly Rice Imports, 2016-18**

(Metric Tons 000s)



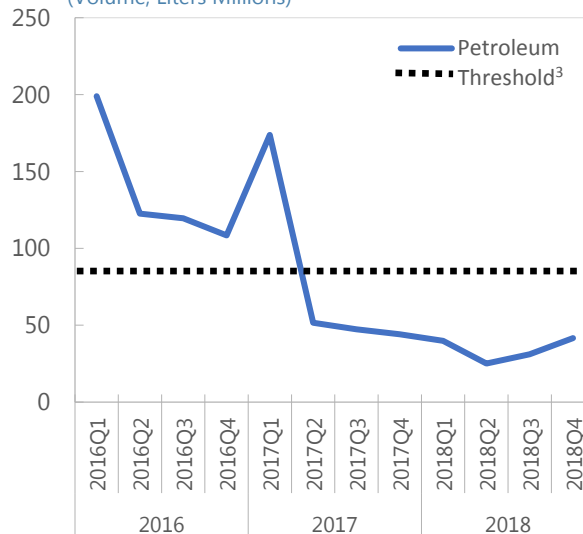
Second, other indicators of the economy such as cement and beverages also show no significant change in consumption or construction.

**Liberia: Quarterly Production Import**Volume, 2016-18<sup>1</sup>

... and close to 50 percent decline in imports of fuel, though some of these declines are offset by running down on inventories of domestic rice and fuel.

**Liberia: Quarterly Petroleum Imports 2016-18**

(Volume, Liters Millions)



Sources: Central Bank of Liberia, and IMF staff calculations.

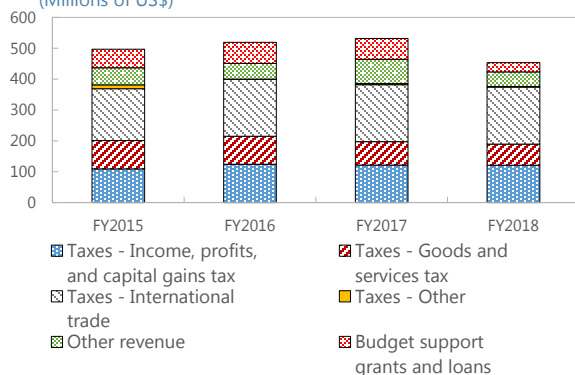
<sup>1</sup>2018Q4 data is based on actual data through end-October 2018 and staff estimations for the remaining months.

<sup>2</sup>Quarterly average rice imports needed to meet 400g rice per person per day criteria (World Food Program).

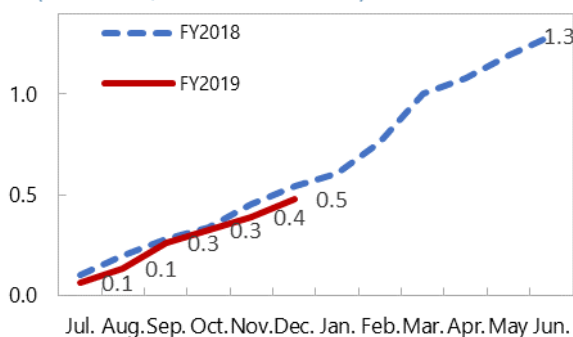
<sup>3</sup>Quarterly average fuel imports considered adequate by Liberia Petroleum Refining Company (LPRC).

**Figure 4. Liberia: Fiscal Performance, FY2014–19**

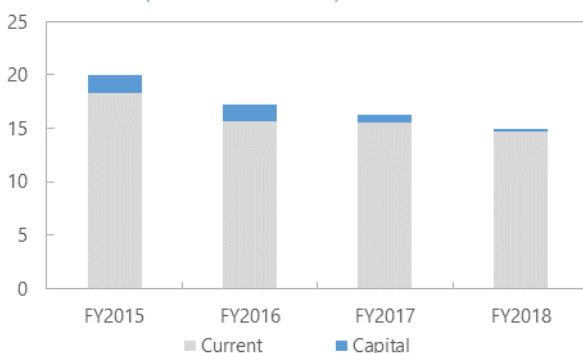
Revenue collection in FY2019 has improved compared to FY2018 as the collection of the fuel surcharge has resumed and trade taxes continue to show improvements. By end-December 2018, the authorities had collected \$228.5 million (7.3 percent of GDP), which is in line with Staff's year-end projections.

**Liberia: Revenue Composition, FY2015-18**  
(Millions of US\$)

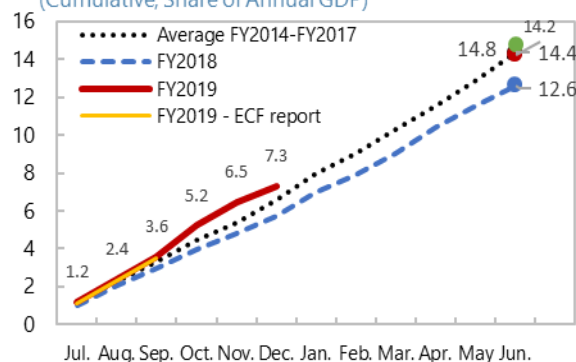
However, the tax base on goods and services has declined in recent months in line with the economic downturn.

**Liberia: Taxes on Goods and Services**  
(Cumulative, Share of Annual GDP)

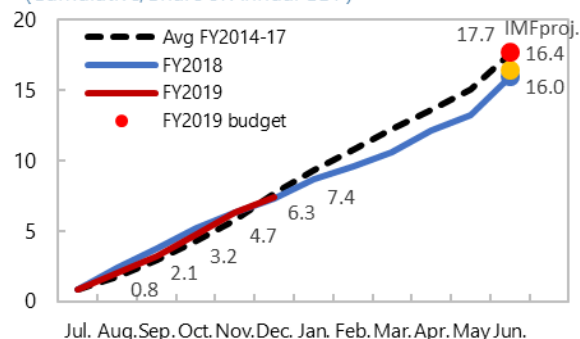
The increasing wage bill is coming at the expense of capital expenditure and much-needed social spending...

**Liberia: On-Budget Expenditure Composition, FY2015-18**  
(Percent of annual GDP)

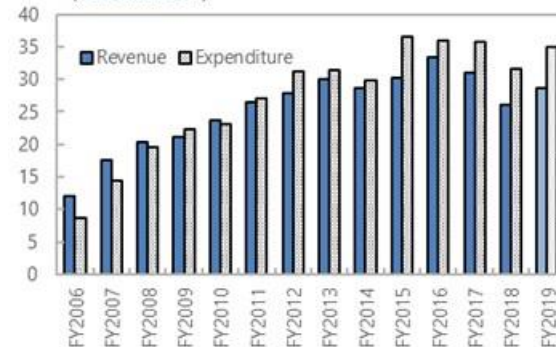
Sources: Liberian authorities; and IMF staff calculations.

**Liberia: Domestic Revenue Performance**  
(Cumulative, Share of Annual GDP)

Expenditure in FY2019 is tracking Staff's projections, but in the absence of a recast budget, concerns about expenditure controls and cash management have risen.

**Liberia: Total Expenditure Performance**  
(Cumulative, Share of Annual GDP)

...while the resulting financing gap from expenditure pressure is being financed with CBL financing.

**Liberia: Revenue and Expenditure, 2006–19**  
(Percent of GDP)

**Table 1. Liberia: Selected Economic and Financial Indicators, 2016–24**

	2016		2017	2018		2019		2020	2021	2022	2023	2024
	Est. with previous GDP	Est. with revised GDP	Act.	2018AIV	Est.	2018AIV	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change)												
Real sector												
Real GDP	-1.6	-1.6	2.5	3.2	1.2	4.7	0.4	1.6	1.3	-1.3	-0.5	3.7
of which, Mining & panning	-33.0	-33.0	28.8	22.3	24.2	13.1	13.2	9.7	6.8	6.6	5.6	6.0
of which, Non-mining	2.6	2.6	0.2	1.1	-1.3	3.6	-1.4	0.2	0.3	-2.7	-1.7	3.3
Nominal non-mining per capita GDP (U.S. dollars)	460	724	695	484	657	577	635	618	609	604	594	613
Nominal GDP (millions of U.S. dollars)	2101	3277	3284	3341	3249	3542	3221	3217	3266	3437	3499	3712
Inflation												
Consumer prices (annual average)	8.8	8.8	13.2	11.7	20.4	10.5	24.5	20.5	17.5	24.5	24.0	13.5
Consumer prices (end of period)	12.5	12.5	13.9	11.0	27.0	10.0	22.0	19.0	16.0	33.0	15.0	12.0
Population (millions)	4.2	4.2	4.4	4.9	4.5	5.0	4.6	4.7	4.8	4.9	5.1	5.2
(Percent of GDP, fiscal year)												
Central government operations <sup>1</sup>												
Total revenue and grants	52.0	33.3	31.0	28.2	26.0	28.3	28.0	28.4	28.7	28.2	28.6	28.3
Total revenue	21.8	14.0	14.3	12.9	13.0	13.6	13.7	14.1	14.5	14.7	14.8	14.9
Grants	30.2	19.3	16.7	15.2	13.0	14.7	14.3	14.2	14.2	13.5	13.8	13.4
Total expenditure and net lending	56.2	36.0	35.8	33.3	31.5	33.4	34.1	35.2	35.6	34.2	34.7	34.3
Current expenditure	35.7	22.9	22.9	22.1	21.3	22.1	22.8	23.2	22.7	20.9	20.2	20.1
Capital expenditure	20.5	13.1	12.9	11.3	10.2	11.3	11.3	12.0	12.9	13.3	14.4	14.2
Overall fiscal balance, including grants	-4.2	-2.7	-4.8	-5.2	-5.5	-5.1	-6.1	-6.8	-6.9	-6.0	-6.1	-6.0
Overall fiscal balance, excluding grants	-34.4	-22.0	-21.5	-20.4	-18.6	-19.8	-20.4	-21.1	-21.1	-19.5	-19.9	-19.4
Financing gap / unidentified financing	0.0	0.0	0.0	-0.4	0.0	-1.5	-0.9	-1.1	-0.6	-0.9	-0.7	0.0
Public external debt <sup>2</sup>	28.0	18.0	22.7	26.3	26.3	29.9	34.1	38.6	42.2	47.5	52.5	55.4
Public domestic debt <sup>3</sup>	n.a.	n.a.	n.a.	n.a.	12.7	8.0	14.4	15.8	16.5	15.8	14.1	12.2
of which, Central Bank of Liberia	n.a.	n.a.	n.a.	n.a.	10.6	n.a.	11.9	13.4	14.8	13.9	13.1	12.3
(Percent, unless otherwise indicated)												
M2/GDP	32.0	20.5	19.9	19.9	21.3	19.9	23.6	24.5	24.8	24.2	23.9	20.3
Credit to private sector (percent of GDP)	19.9	12.8	14.6	15.8	15.4	16.4	16.4	16.8	16.9	15.6	14.8	14.1
Credit to private sector (annual percent change)	2.3	2.3	14.7	10.0	4.2	10.0	5.3	2.4	2.4	-2.9	-3.7	1.6
Velocity (GDP-to-M2)		4.7	4.8	5.0	4.6	5.0	4.2	4.1	4.0	4.1	4.2	4.9
Money multiplier (M2/M0)		4.1	3.7	3.9	4.2	4.0	3.9	3.9	3.9	3.9	3.9	3.9
(Percent of GDP, unless otherwise indicated)												
External sector												
Current account balance												
including grants	-28.9	-18.6	-23.4	-22.4	-23.4	-22.3	-23.3	-23.1	-24.4	-16.4	-17.2	-16.7
excluding grants	-73.6	-47.2	-43.6	-39.0	-38.5	-36.4	-37.6	-37.4	-38.4	-29.9	-30.9	-29.8
Trade balance	-43.9	-28.2	-20.2	-18.2	-18.5	-17.5	-14.7	-13.5	-13.7	-9.0	-9.3	-9.3
Exports	18.1	11.6	13.0	12.9	16.7	12.4	18.0	19.6	21.0	20.6	21.1	21.3
Imports	-62.0	-39.8	-33.2	-31.1	-35.2	-29.9	-32.7	-33.1	-34.7	-29.5	-30.4	-30.6
Grants (donor transfers, net)	44.6	28.6	20.2	16.6	15.0	14.1	14.3	14.3	14.0	13.6	13.7	13.1
Financing gap ( - deficit / + surplus)	0.0	0.0	0.0	-0.6	-0.5	-1.1	-1.0	-0.9	-0.8	-0.8	-0.6	0.0
Gross official reserves (millions of U.S. dollars)	453	453	407	405	358	429	261	173	87	84	85	87
Months of imports of goods and services <sup>4</sup>	3.2	3.3	3.3	3.0	3.0	3.1	2.1	1.3	0.8	0.7	0.7	0.6
CBL's net foreign exchange position (millions of U.S. dollars)	165	165	128	124	106	164	-3	-61	-113	-77	-36	2

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

<sup>1</sup> Central government operation is based on a commitment basis and refers to the budgetary central government operations and off-budget projects. Fiscal year refers to July 1 to June 30.<sup>2</sup> Ratios are calculated using external debt (in USD) evaluated at the end of period exchange rate over GDP (in USD) evaluated at the period average exchange rate.<sup>3</sup> Including the central government debts from the Central Bank of Liberia.<sup>4</sup> In months of next year's imports excluding imports related to UNMIL operations and FDI projects such as iron-ore concessions.

**Table 2. Liberia: Balance of Payments, 2016–24**  
(Millions of U.S. dollars, unless otherwise indicated)

	2016	2017	2018		2019		2020	2021	2022	2023	2024
	Act.	Act.	2018AIV	Est.	2018AIV	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance <sup>1</sup>	-923	-663	-608	-601	-619	-473	-434	-449	-308	-326	-346
Exports, f.o.b.	380	427	432	543	440	579	631	685	707	737	792
of which : Iron ore	77	88	130	145	131	157	162	177	186	195	205
of which : Gold	76	130	130	226	226	268	303	326	360	390	460
Imports, c.i.f.	-1,303	-1,090	-1,040	-1,144	-1,059	-1,052	-1,065	-1,134	-1,015	-1,063	-1,137
Services (net)	-678	-539	-528	-332	-435	-338	-333	-349	-288	-314	-343
Income (net)	-209	-301	-425	-444	-504	-531	-573	-600	-584	-598	-583
of which : Compensation of employees	-23	-23	-25	-28	-29	-32	-35	-41	-45	-47	-51
of which : Public interest payments due	-5	-7	-9	-11	-7	-20	-23	-28	-43	-54	-53
Current transfers	1,201	735	812	616	769	591	597	601	617	638	653
Current account balance	-608	-769	-749	-761	-788	-751	-743	-796	-563	-600	-620
Current account balance, excluding grants	-1,546	-1,432	-1,304	-1,250	-1,289	-1,210	-1,202	-1,253	-1,029	-1,081	-1,107
Capital and financial account (net)	574	723	704	700	788	635	652	707	550	594	623
Capital account	60	55	53	53	52	52	51	42	41	39	40
Financial account	514	668	651	647	737	584	601	665	509	555	583
Foreign direct investment (net)	233	242	300	286	376	342	385	423	391	385	422
Portfolio investment (net)	0	0	0	0	0	0	0	0	0	0	0
Other investment (net)	281	426	351	361	360	242	216	242	118	170	161
Official financing: medium and long term (net)	41	76	147	58	168	147	172	189	213	233	218
Private financing (net) <sup>2</sup>	239	350	204	303	192	95	44	52	-95	-63	-57
Overall balance	-34	-45	-46	-62	0	-115	-91	-89	-12	-6	3
Financing	34	45	25	47	-40	83	64	64	-15	-16	-13
Change in gross official reserves (increase -) <sup>3</sup>	-4	45	28	50	-24	97	88	86	3	-1	-2
Net use of IMF credit and loans	38	0	-3	-3	-15	-15	-24	-21	-18	-16	-11
Donor financing	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing	0	0	0	0	0	0	0	0	0	0	0
Financing gap ( - deficit / + surplus)	0	0	-21	-15	-40	-32	-28	-25	-27	-23	-10
<i>Memorandum items:</i>											
Current account balance (percent of GDP)											
Including grants	-18.6	-23.4	-22.4	-23.4	-22.3	-23.3	-23.1	-24.4	-16.4	-17.2	-16.7
Excluding grants	-47.2	-43.6	-39.0	-38.5	-36.4	-37.6	-37.4	-38.4	-29.9	-30.9	-29.8
Trade balance (percent of GDP)	-28.2	-20.2	-18.2	-18.5	-17.5	-14.7	-13.5	-13.7	-9.0	-9.3	-9.3
Donor transfers (net, percent of GDP)	28.6	20.2	16.6	15.0	14.1	14.3	14.3	14.0	13.6	13.7	13.1
Foreign direct investment (net, percent of GDP)	7.1	7.4	9.0	8.8	10.6	10.6	12.0	13.0	11.4	11.0	11.4
Public sector external debt (medium and long term, percent of GDP) <sup>4</sup>	18.0	22.7	26.3	26.3	29.9	34.1	38.6	42.2	47.5	52.5	55.4
Gross official reserves	453	407	405	358	429	261	173	87	84	85	87
Gross official reserves (months of imports) <sup>5</sup>	3.3	3.3	3.0	3.0	3.1	2.1	1.3	0.8	0.7	0.7	0.6

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

<sup>1</sup> The central bank is currently revising BOP statistics using the custom-based trade data, which would have better data coverage, especially on imports.

<sup>2</sup> "Private financing" may reflect current transfers that are not captured by the official statistics.

<sup>3</sup> Includes SDR holdings.

<sup>4</sup> Recorded in fiscal years.

<sup>5</sup> In months of next year's imports excluding imports related to UNMIL.

**Table 3a. Liberia: Fiscal Operations of the Budgetary Central Government (Including Off-Budget Transactions),<sup>1</sup> 2016–24**  
(Millions of U.S. dollars)

	FY2016	FY2017	FY2018		FY2019			FY2020	FY2021	FY2022	FY2023	FY2024
	Act.	Act.	2018AIV	Est.	2018AIV	Proj.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,075	1,006	949	849	974	905	992	913	929	946	992	1,019
<i>of which:</i> Revenue, excl. grants	452	464	436	423	467	444	510	455	469	492	514	537
Taxes	400	385	372	376	400	370	395	379	391	408	425	442
Income, profits, and capital gains tax	117	114	109	115	117	115	124	117	119	124	131	136
Goods and services tax	91	76	80	69	88	73	92	77	82	87	92	95
International trade tax	185	185	175	185	185	174	174	175	178	184	189	199
Other taxes <sup>2</sup>	8	10	9	8	11	9	5	10	11	12	12	13
Other revenue	51	79	64	47	67	74	115	76	78	84	89	94
Grants	624	542	513	425	507	461	482	458	460	454	479	483
Expense	739	742	743	696	759	737	758	747	736	701	702	725
Compensation of employees	253	289	289	306	289	325	320	332	332	309	300	297
Use of goods and services	394	377	370	322	376	336	345	325	323	303	295	309
Interest	9	9	14	20	29	32	32	43	36	51	68	73
Subsidies and grants	81	65	68	47	63	43	61	47	44	37	38	44
Social benefits	1	2	2	1	2	0	0	1	1	1	1	1
Net operating balance	337	263	206	152	215	168	234	165	193	245	290	295
Gross investment in nonfinancial assets	424	419	379	333	391	365	402	385	418	445	500	511
Overall balance = Net lending/borrowing	-87	-155	-174	-181	-176	-197	-168	-220	-225	-200	-210	-216
excl. Grants	-711	-697	-686	-606	-682	-658	-650	-678	-685	-654	-689	-699
Primary balance	-78	-146	-159	-161	-147	-165	-136	-177	-189	-149	-142	-143
excl. Grants	-701	-687	-672	-587	-653	-626	-617	-635	-649	-603	-621	-626
Transactions in assets and liabilities	-87	-155	-162	-181	-126	-167	-167	-185	-205	-170	-185	-196
<i>of which:</i> External financial transactions	112	117	128	117	156	136	136	139	157	179	210	226
Net acquisition of financial assets	-7	22	-3	-3	-22	-15	-15	-20	0	0	0	0
Currency and deposits	-7	22	-3	-3	-22	-15	-15	-20	0	0	0	0
Others	0	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	80	178	159	178	104	152	152	165	205	170	185	196
Loan disbursements	92	183	175	193	155	256	256	219	271	239	258	267
External	113	122	135	124	165	145	145	168	198	221	250	263
Domestic	-21	62	39	69	-10	111	111	52	73	18	8	4
Central Bank of Liberia	0	17	20	50	0	50	50	60	60	0	0	0
Other financial sectors <sup>3</sup>	-21	44	19	19	-10	61	61	-8	13	18	8	4
Amortization (-)	-8	-4	-11	-11	-37	-26	-26	-41	-53	-56	-59	-57
External	-1	-4	-7	-7	-9	-9	-9	-29	-41	-42	-40	-38
Domestic	-7	0	-5	-5	-28	-17	-17	-12	-12	-14	-19	-19
Central Bank of Liberia	0	0	0	0	-23	-13	-13	-12	-12	-14	-16	-16
Other financial sectors	-7	0	-5	-5	-6	-5	-5	0	0	0	-3	-3
Others (net)	-4	-1	-4	-4	-13	-78	-78	-13	-13	-13	-14	-14
Financing gap / unidentified financing	0	0	-12	0	-50	-30	-1	-35	-20	-30	-25	-20
<i>Memorandum items:</i>												
Total public debts	881	1,134	962	1,274	1,060	1,569	1,569	1,751	1,903	2,122	2,309	2,436
External	580	736	884	859	1,030	1,103	1,103	1,242	1,368	1,592	1,821	1,997
Domestic <sup>4</sup>	301	398	78	415	30	466	466	509	536	530	488	438
Fiscal year GDP	3,226	3,244	3,367	3,267	3,442	3,235	3,235	3,219	3,241	3,352	3,468	3,606

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

<sup>1</sup> Fiscal table is shown on a commitment basis and refers to the budgetary central government operations and off-budget projects. Fiscal year refers to July 1 to June 30.

<sup>2</sup> Including property tax and social contribution by foreign concessions.

<sup>3</sup> Including net issuance of T-bill and T-bond.

<sup>4</sup> Including the central government debt from the Central Bank of Liberia, which was not included prior to 2019 Article IV Consultation.

**Table 3b. Liberia: Fiscal Operations of the Budgetary Central Government (Including Off-Budget Transactions),<sup>1</sup> 2016–24**  
(Percent of GDP, unless otherwise indicated)

	FY2016	FY2017	FY2018		FY2019			FY2020	FY2021	FY2022	FY2023	FY2024
	Act.	Act.	2018AIV	Est.	2018AIV	Proj.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	33.3	31.0	28.2	26.0	28.3	28.0	30.7	28.4	28.7	28.2	28.6	28.3
<i>of which: Revenue, excl. grants</i>	14.0	14.3	12.9	13.0	13.6	13.7	15.8	14.1	14.5	14.7	14.8	14.9
Taxes	12.4	11.9	11.1	11.5	11.6	11.4	12.2	11.8	12.1	12.2	12.2	12.3
Income, profits, and capital gains tax	3.6	3.5	3.2	3.5	3.4	3.6	3.8	3.6	3.7	3.7	3.8	3.8
Goods and services tax	2.8	2.3	2.4	2.1	2.5	2.2	2.9	2.4	2.5	2.6	2.7	2.6
International trade tax	5.7	5.7	5.2	5.7	5.4	5.4	5.4	5.4	5.5	5.5	5.5	5.5
Other taxes <sup>2</sup>	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.3	0.3	0.3	0.4	0.4
Other revenue	1.6	2.4	1.9	1.5	2.0	2.3	3.6	2.4	2.4	2.5	2.6	2.6
Grants	19.3	16.7	15.2	13.0	14.7	14.3	14.9	14.2	14.2	13.5	13.8	13.4
Expense	22.9	22.9	22.1	21.3	22.1	22.8	23.4	23.2	22.7	20.9	20.2	20.1
Compensation of employees	7.8	8.9	8.6	9.4	8.4	10.0	9.9	10.3	10.3	9.2	8.7	8.3
Use of goods and services	12.2	11.6	11.0	9.9	10.9	10.4	10.7	10.1	10.0	9.0	8.5	8.6
Interest	0.3	0.3	0.4	0.6	0.9	1.0	1.0	1.3	1.1	1.5	1.9	2.0
Subsidies and grants	2.5	2.0	2.0	1.4	1.8	1.3	1.9	1.5	1.4	1.1	1.1	1.2
Social benefits	0.0	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net operating balance	10.4	8.1	6.1	4.7	6.2	5.2	7.2	5.1	6.0	7.3	8.4	8.2
Gross investment in nonfinancial assets	13.1	12.9	11.3	10.2	11.3	11.3	12.4	12.0	12.9	13.3	14.4	14.2
Overall balance = Net lending/borrowing	-2.7	-4.8	-5.2	-5.5	-5.1	-6.1	-5.2	-6.8	-6.9	-6.0	-6.1	-6.0
excl. Grants	-22.0	-21.5	-20.4	-18.6	-19.8	-20.3	-20.1	-21.1	-21.1	-19.5	-19.9	-19.4
Primary balance	-2.4	-4.5	-4.7	-4.9	-4.3	-5.1	-4.2	-5.5	-5.8	-4.4	-4.1	-4.0
excl. Grants	-21.7	-21.2	-20.0	-18.0	-19.0	-19.3	-19.1	-19.7	-20.0	-18.0	-17.9	-17.3
Transactions in assets and liabilities	-2.7	-4.8	-4.8	-5.5	-3.7	-5.2	-5.2	-5.7	-6.3	-5.1	-5.3	-5.4
<i>of which: External financial transactions</i>	3.5	3.6	3.8	3.6	4.5	4.2	4.2	4.3	4.8	5.3	6.0	6.3
Net acquisition of financial assets	-0.2	0.7	-0.1	-0.1	-0.6	-0.5	-0.5	-0.6	0.0	0.0	0.0	0.0
Currency and deposits	-0.2	0.7	-0.1	-0.1	-0.6	-0.5	-0.5	-0.6	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	2.5	5.5	4.7	5.4	3.0	4.7	4.7	5.1	6.3	5.1	5.3	5.4
Loan disbursements	2.9	5.7	5.2	5.9	4.5	7.9	7.9	6.8	8.4	7.1	7.4	7.4
External	3.5	3.8	4.0	3.8	4.8	4.5	4.5	5.2	6.1	6.6	7.2	7.3
Domestic	-0.6	1.9	1.2	2.1	-0.3	3.4	3.4	1.6	2.3	0.5	0.2	0.1
Central Bank of Liberia	0.0	0.5	0.6	1.5	0.0	1.5	1.5	1.9	1.9	0.0	0.0	0.0
Other financial sectors <sup>3</sup>	-0.6	1.4	0.6	0.6	-0.3	1.9	1.9	-0.3	0.4	0.5	0.2	0.1
Amortization (-)	-0.3	-0.1	-0.3	-0.3	-1.1	-0.8	-0.8	-1.3	-1.6	-1.7	-1.7	-1.6
External	0.0	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3	-0.9	-1.3	-1.3	-1.2	-1.0
Domestic	-0.2	0.0	-0.1	-0.1	-0.8	-0.5	-0.5	-0.4	-0.4	-0.4	-0.5	-0.5
Central Bank of Liberia	0.0	0.0	0.0	0.0	-0.7	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5	-0.4
Other financial sectors	-0.2	0.0	-0.1	-0.1	-0.2	-0.1	-0.1	0.0	0.0	0.0	-0.1	-0.1
Others (net)	-0.1	0.0	-0.1	-0.1	-0.4	-2.4	-2.4	-0.4	-0.4	-0.4	-0.4	-0.4
Financing gap / unidentified financing	0.0	0.0	-0.4	0.0	-1.5	-0.9	0.0	-1.1	-0.6	-0.9	-0.7	-0.6
<b>Memorandum items:</b>												
Total public debts	27.3	35.0	28.6	39.0	30.8	48.5	48.5	54.4	58.7	63.3	66.6	67.6
External <sup>4</sup>	18.0	22.7	26.3	26.3	29.9	34.1	34.1	38.6	42.2	47.5	52.5	55.4
Domestic <sup>5</sup>	9.3	12.3	2.3	12.7	0.9	14.4	14.4	15.8	16.5	15.8	14.1	12.2
Fiscal year GDP	3,226	3,244	3,367	3,267	3,442	3,235	3,235	3,219	3,241	3,352	3,468	3,606

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

<sup>1</sup> Fiscal table is shown on a commitment basis and refers to the budgetary central government operations and off-budget projects. Fiscal year refers to July 1 to June 30.

<sup>2</sup> Including property tax and social contribution by foreign concessions.

<sup>3</sup> Including net issuance of T-bill and T-bond.

<sup>4</sup> Ratios are calculated using external debt (in USD) evaluated at the end of period exchange rate over GDP (in USD) evaluated at the period average exchange rate.

<sup>5</sup> Including the central government debt from the Central Bank of Liberia, which was not included prior to 2019 Article IV Consultation.

**Table 3c. Liberia: Fiscal Operations of the Budgetary Central Government,<sup>1</sup> 2016–24**  
(Millions of U.S. dollars)

	FY2016	FY2017	FY2018		FY2019			FY2020	FY2021	FY2022	FY2023	FY2024
	Act.	Act.	2018AIV	Est.	2018AIV	Proj.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	520	531	486	454	523	475	562	486	507	528	554	577
<i>of which</i> : Revenue, excl. grants	452	464	436	423	467	444	510	455	469	492	514	537
Taxes	400	385	372	376	400	370	395	379	391	408	425	442
Income, profits, and capital gains tax	117	114	109	115	117	115	124	117	119	124	131	136
Goods and services tax	91	76	80	69	88	73	92	77	82	87	92	95
International trade tax	185	185	175	185	185	174	174	175	178	184	189	199
Other taxes <sup>2</sup>	8	10	9	8	11	9	5	10	11	12	12	13
Other revenue	51	79	64	47	67	74	115	76	78	84	89	94
Grants	68	67	50	30	56	31	51	32	38	36	40	40
Expense	491	497	496	481	503	507	528	522	513	484	495	513
Compensation of employees	253	289	289	306	289	325	320	332	332	309	300	297
Use of goods and services	146	132	123	107	120	106	115	99	100	86	88	98
Interest	9	9	14	20	29	32	32	43	36	51	68	73
Subsidies and grants	81	65	68	47	63	43	61	47	44	37	38	44
Social benefits	1	2	2	1	2	0	0	1	1	1	1	1
Net operating balance	29	34	-10	-27	20	-32	34	-35	-5	44	58	64
Gross investment in nonfinancial assets	52	51	7	7	19	8	45	6	8	5	10	13
Overall balance = Net lending/borrowing	-23	-17	-16	-34	1	-40	-11.6	-41	-14	39	48	51
excl. Grants	-91	-84	-67	-65	-55	-71	-63	-73	-52	3	8	11
Primary balance	-13	-8	-2	-15	30	-8	21	2	22	90	116	124
excl. Grants	-82	-75	-52	-45	-26	-39	-30	-30	-16	54	76	84
Transactions in assets and liabilities	-23	-17	-4	-34	51	-10	-10	-6	6	69	73	71
<i>of which</i> : External financial transactions	27	1	-7	-7	-9	-9	-9	-29	-41	-42	-40	-38
Net acquisition of financial assets	-7	0	0	0	0	0	0	0	0	0	0	0
Currency and deposits	-7	0	0	0	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	15	17	4	34	-51	10	10	6	-6	-69	-73	-71
Loan disbursements	28	23	20	50	0	115	115	60	60	0	0	0
External	28	6	0	0	0	0	0	0	0	0	0	0
Domestic	0	17	20	50	0	115	115	60	60	0	0	0
Central Bank of Liberia	0	17	20	50	0	50	50	60	60	0	0	0
Other financial sectors <sup>3</sup>	0	0	0	0	0	65	65	0	0	0	0	0
Amortization (-)	-8	-4	-11	-11	-37	-26	-26	-41	-53	-56	-59	-57
External	-1	-4	-7	-7	-9	-9	-9	-29	-41	-42	-40	-38
Domestic	-7	0	-5	-5	-28	-17	-17	-12	-12	-14	-19	-19
Central Bank of Liberia	0	0	0	0	-23	-13	-13	-12	-12	-14	-16	-16
Other financial sectors	-7	0	-5	-5	-6	-5	-5	0	0	0	-3	-3
Others (net)	-4	-1	-4	-4	-13	-78	-78	-13	-13	-13	-14	-14
Financing gap / unidentified financing	0	0	-12	0	-50	-30	-22	-35	-20	-30	-25	-20
<i>Memorandum items:</i>												
Total public debts	881	1,134	962	1,274	1,060	1,569	1,569	1,751	1,903	2,122	2,309	2,436
External	580	736	884	859	1,030	1,103	1,103	1,242	1,368	1,592	1,821	1,997
Domestic <sup>4</sup>	301	398	78	415	30	466	466	509	536	530	488	438
Fiscal year GDP	3,226	3,244	3,367	3,267	3,442	3,235	3,235	3,219	3,241	3,352	3,468	3,606

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

<sup>1</sup> Fiscal table is shown on a commitment basis and refers to the budgetary central government operations and off-budget projects. Fiscal year refers to July 1 to June 30.

<sup>2</sup> Including property tax and social contribution by foreign concessions.

<sup>3</sup> Including net issuance of T-bill and T-bond.

<sup>4</sup> Including the central government debt from the Central Bank of Liberia, which was not included prior to 2019 Article IV Consultation.

**Table 3d. Liberia: Fiscal Operations of the Budgetary Central Government,<sup>1</sup> 2016–24**  
(Percent of GDP, unless otherwise indicated)

	FY2016	FY2017	FY2018		FY2019			FY2020	FY2021	FY2022	FY2023	FY2024
	Act.	Act.	2018AIV	Est.	2018AIV	Proj.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	16.1	16.4	14.4	13.9	15.2	14.7	17.4	15.1	15.7	15.8	16.0	16.0
<i>of which:</i> Revenue, excl. grants	14.0	14.3	12.9	13.0	13.6	13.7	15.8	14.1	14.5	14.7	14.8	14.9
Taxes	12.4	11.9	11.1	11.5	11.6	11.4	12.2	11.8	12.1	12.2	12.2	12.3
Income, profits, and capital gains tax	3.6	3.5	3.2	3.5	3.4	3.6	3.8	3.6	3.7	3.7	3.8	3.8
Goods and services tax	2.8	2.3	2.4	2.1	2.5	2.2	2.9	2.4	2.5	2.6	2.7	2.6
International trade tax	5.7	5.7	5.2	5.7	5.4	5.4	5.4	5.4	5.5	5.5	5.5	5.5
Other taxes <sup>2</sup>	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.3	0.3	0.3	0.4	0.4
Other revenue	1.6	2.4	1.9	1.5	2.0	2.3	3.6	2.4	2.4	2.5	2.6	2.6
Grants	2.1	2.1	1.5	0.9	1.6	1.0	1.6	1.0	1.2	1.1	1.2	1.1
Expense	15.2	15.3	14.7	14.7	14.6	15.7	16.3	16.2	15.8	14.4	14.3	14.2
Compensation of employees	7.8	8.9	8.6	9.4	8.4	10.0	9.9	10.3	10.3	9.2	8.7	8.3
Use of goods and services	4.5	4.1	3.6	3.3	3.5	3.3	3.6	3.1	3.1	2.6	2.6	2.7
Interest	0.3	0.3	0.4	0.6	0.9	1.0	1.0	1.3	1.1	1.5	1.9	2.0
Subsidies and grants	2.5	2.0	2.0	1.4	1.8	1.3	1.9	1.5	1.4	1.1	1.1	1.2
Social benefits	0.0	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net operating balance	0.9	1.1	-0.3	-0.8	0.6	-1.0	1.0	-1.1	-0.2	1.3	1.7	1.8
Gross investment in nonfinancial assets	1.6	1.6	0.2	0.2	0.6	0.3	1.4	0.2	0.3	0.2	0.3	0.4
Overall balance = Net lending/borrowing	-0.7	-0.5	-0.5	-1.1	0.0	-1.3	-0.4	-1.3	-0.4	1.2	1.4	1.4
<i>excl. Grants</i>	-2.8	-2.6	-2.0	-2.0	-1.6	-2.2	-1.9	-2.3	-1.6	0.1	0.2	0.3
Primary balance	-0.4	-0.2	-0.1	-0.5	0.9	-0.2	0.6	0.1	0.7	2.7	3.3	3.4
<i>excl. Grants</i>	-2.5	-2.3	-1.6	-1.4	-0.7	-1.2	-0.9	-0.9	-0.5	1.6	2.2	2.3
Transactions in assets and liabilities	-0.7	-0.5	-0.1	-1.1	1.5	-0.3	-0.3	-0.2	0.2	2.1	2.1	2.0
<i>of which:</i> External financial transactions	0.8	0.0	-0.2	-0.2	-0.3	-0.3	-0.3	-0.9	-1.3	-1.3	-1.2	-1.0
Net acquisition of financial assets	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	0.5	0.5	0.1	1.1	-1.5	0.3	0.3	0.2	-0.2	-2.1	-2.1	-2.0
Loan disbursements	0.9	0.7	0.6	1.5	0.0	3.6	3.6	1.9	1.9	0.0	0.0	0.0
External	0.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.5	0.6	1.5	0.0	3.6	3.6	1.9	1.9	0.0	0.0	0.0
Central Bank of Liberia	0.0	0.5	0.6	1.5	0.0	1.5	1.5	1.9	1.9	0.0	0.0	0.0
Other financial sectors <sup>3</sup>	0.0	0.0	0.0	0.0	0.0	2.0	2.0	0.0	0.0	0.0	0.0	0.0
Amortization (-)	-0.3	-0.1	-0.3	-0.3	-1.1	-0.8	-0.8	-1.3	-1.6	-1.7	-1.7	-1.6
External	0.0	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3	-0.9	-1.3	-1.3	-1.2	-1.0
Domestic	-0.2	0.0	-0.1	-0.1	-0.8	-0.5	-0.5	-0.4	-0.4	-0.4	-0.5	-0.5
Central Bank of Liberia	0.0	0.0	0.0	0.0	-0.7	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5	-0.4
Other financial sectors	-0.2	0.0	-0.1	-0.1	-0.2	-0.1	-0.1	0.0	0.0	0.0	-0.1	-0.1
Others (net)	-0.1	0.0	-0.1	-0.1	-0.4	-2.4	-2.4	-0.4	-0.4	-0.4	-0.4	-0.4
Financing gap / unidentified financing	0.0	0.0	-0.4	0.0	-1.5	-0.9	-0.7	-1.1	-0.6	-0.9	-0.7	-0.6
<i>Memorandum items:</i>												
Total public debts	27.3	35.0	28.6	39.0	30.8	48.5	48.5	54.4	58.7	63.3	66.6	67.6
External <sup>4</sup>	18.0	22.7	26.3	26.3	29.9	34.1	34.1	38.6	42.2	47.5	52.5	55.4
Domestic <sup>5</sup>	9.3	12.3	2.3	12.7	0.9	14.4	14.4	15.8	16.5	15.8	14.1	12.2
Fiscal year GDP	3,226	3,244	3,367	3,267	3,442	3,235	3,235	3,219	3,241	3,352	3,468	3,606

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

<sup>1</sup> Fiscal table is shown on a commitment basis and refers to the budgetary central government operations and off-budget projects. Fiscal year refers to July 1 to June 30.

<sup>2</sup> Including property tax and social contribution by foreign concessions.

<sup>3</sup> Including net issuance of T-bill and T-bond.

<sup>4</sup> Ratios are calculated using external debt (in USD) evaluated at the end of period exchange rate over GDP (in USD) evaluated at the period average exchange rate.

<sup>5</sup> Including the central government debt from the Central Bank of Liberia, which was not included prior to 2019 Article IV Consultation.

**Table 4. Liberia: Monetary Survey, 2016–24**  
(Millions of U.S. dollars; unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Central Bank Survey)									
Net foreign assets	166	70	26	-58	-117	-170	-136	-135	-133
CBL's gross foreign reserves	537	483	426	329	241	156	153	153	156
Commercial banks' US\$ denominated deposits	84	76	68	68	68	68	68	68	68
CBL's gross official foreign reserves	453	407	358	261	173	87	84	85	87
CBL's net foreign exchange position	165	128	106	-3	-61	-113	-77	-36	2
Government US\$ denominated deposits	91	45	29	49	49	49	49	49	49
Net domestic assets	0	105	139	253	319	378	349	350	327
Net claims on government	86	198	229	363	438	494	496	495	490
Claims on other public sector	0	0	0	0	0	0	0	0	0
Claims on private sector	21	4	2	4	4	4	4	4	4
Claims on commercial banks	16	33	32	32	32	32	32	32	32
Other items (net)	-125	-131	-124	-147	-155	-152	-183	-181	-200
Monetary base (M0)	165	175	164	195	202	207	213	215	194
Monetary base (billions of Liberian dollars)	17	22	26	39	49	55	73	83	83
(Depository Corporation Survey)									
Net foreign assets	244	107	111	54	-5	-58	-24	-23	-21
Net domestic assets	428	548	582	674	760	835	823	829	744
Net claims on government	125	235	270	434	521	591	605	604	580
Claims on public enterprises	52	28	25	22	22	22	22	22	22
Claims on private sector	418	480	500	527	540	553	537	517	525
Claims on nonbank financial institutions	2	5	5	11	11	11	11	11	11
Other Items (Net)	-170	-200	-218	-304	-318	-325	-336	-310	-378
Broad money (M2)	672	655	693	760	787	809	831	838	755
L\$ component	222	224	225	233	241	248	255	257	231
L\$ Currency in circulation	116	119	115	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
L\$ denominated deposits	106	104	110	114	118	121	124	125	113
US\$ component (deposits only)	450	431	468	527	546	561	576	581	524
<i>Memorandum items:</i>									
Broad money (annual change) in USD	-5.2	-2.5	5.9	9.7	3.5	2.8	2.7	0.8	-9.8
Broad money (annual change) in LD	9.8	19.3	32.9	40.4	24.2	13.1	32.5	13.9	-0.8
L\$ contribution to broad money growth (in LD)	7.2	7.8	8.9	10.6	7.4	4.0	10.0	4.3	-0.3
US\$ contribution to broad money growth (in LD)	2.7	11.5	23.9	29.8	16.8	9.1	22.5	9.7	-0.6
Monetary base (annual change)	3.4	5.7	-6.1	18.1	3.5	2.8	2.7	0.8	-9.8
Net credit to government (annual change)	3.7	88.2	14.9	60.5	20.2	13.4	2.4	-0.2	-4.0
Credit to private sector (annual change)	2.3	14.7	4.2	5.3	2.4	2.4	-2.9	-3.7	1.6
Velocity (GDP-to-M2)	4.7	4.8	4.6	4.2	4.1	4.0	4.1	4.2	4.9
Money multiplier (M2/M0)	4.1	3.7	4.2	3.9	3.9	3.9	3.9	3.9	3.9

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

**Table 5. Liberia: Financial Soundness Indicators, 2014–18**  
(Percent)

	2014	2015	2016	2017	2018
	Dec.	Dec.	Dec.	Dec.	Oct.
<b>Capital adequacy</b>					
Regulatory capital to risk-weighted assets	20.3	15.5	21.5	18.0	27.6
Reported net capitalization	12.6	11.8	15.9	19.7	19.8
<b>Asset quality</b>					
Non-performing loans to total loans	18.7	15.7	14.8	14.7	13.8
Provisions to non-performing loans net of interest in suspense	61.1	73.5	88.3	65.5	75.1
Provisions to classified loans net of interest in suspense	51.8	63.6	61.1	62.9	68.7
<b>Loan concentration (share of total)<sup>1</sup></b>					
Agriculture	6.8	7.0	4.4	30.1	30.8
Mining and Quarrying	0.6	0.4	0.1	1.4	5.2
Manufacturing	1.9	2.6	5.4	18.8	10.4
Construction	17.2	14.3	10.6	49.8	53.7
Transportation, Storage, and Communication	7.4	8.7	6.2	...	...
Trade, Hotels, and Restaurants	43.8	43.3	28.2	...	...
Services	6.3	5.6	3.3	...	...
Personal	9.7	10.0	12.4	...	...
Government of Liberia	2.2	2.5	0.0	...	...
Public corporations	1.1	0.7	0.1	...	...
Others	2.8	4.7	29.3	...	...
<b>Earnings and profitability</b>					
Return on assets	0.1	-1.0	0.2	-0.2	1.1
Return on equity	1.0	-9.0	0.8	-1.4	6.4
Non-interest income to total income	51.0	52.4	43.8	42.6	46.8
Net interest margin over average assets	7.4	7.6	2.7	1.4	4.4
<b>Liquidity</b>					
Liquid assets to deposits and designated liabilities	50.4	36.8	51.4	45.6	40.8
Liquid assets to net assets	34.0	26.7	35.6	30.1	0.0
Net loans to deposits	50.4	56.8	72.9	83.4	77.4

Sources: Liberian authorities; and IMF staff estimates.

<sup>1</sup>Classification changed from 2017 in line with ISIC.

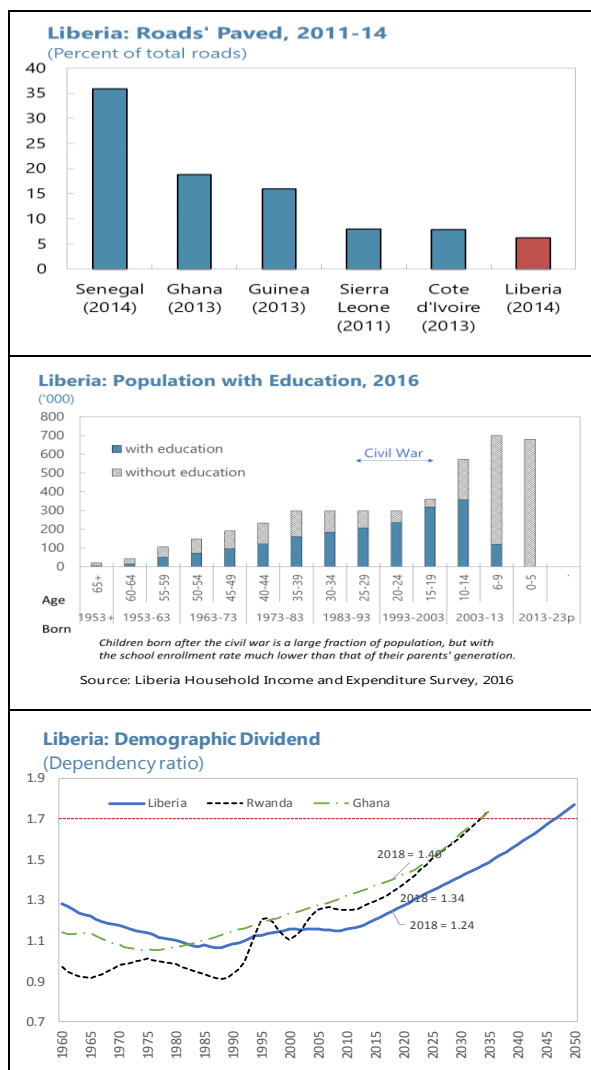
## Annex I. Medium-Term Outlook: Factor Accumulation

Medium-term growth projections for Liberia are in line with the pace of factor accumulation. The United Nations estimates annual population growth at 3 percent but—with over 50 percent of the population younger than 15 years—the working-age population is projected to grow at 4.2 percent. Deficient physical and human capital undermine the full potential of the future labor force.

**Physical capital.** Basic infrastructure and public service facilities were severely damaged during the two civil wars (see Box 1 IMF Country Report 17/172). The infrastructure deficit undercut efforts to boost regional economic activity as only 5 percent of the total length of roads are paved. The current administration has made it a priority to rehabilitate the road network, but absorption capacity and financing of such effort are major challenges.

**Human Capital.** The conflict also had a long-term impact on human capital. Younger children are attending school at a lower rate than older generations. In turn, 51 percent of the school-age children are not attending school, and a sizable proportion of those attending are overage and/or will not complete primary school. Consequently, the ability of the young cohort to become active economic participants to lift themselves out of poverty is weakened. Moreover, Liberia is projected to benefit from the demographic dividend only after 2045, about 10 years after some of the peers.<sup>1</sup>

**Productivity.** To improve productivity, Liberia should improve its public financial system for better delivery of services (Annex II). Making the country more competitive in agriculture and other sectors will be key to economic growth and diversification (annex III). Furthermore, the authorities need to strengthen governance in several institutions, including the CBL, and bolster the anti-corruption framework (Annex II).



<sup>1</sup>The demographic dividend is defined as the economic growth potential that can result from shifts in populations' age structure, mainly when the share of the working-age population is 1.7 times larger than the non-working-age population. Some argue that one-third to a half of long-term growth can be explained by it (Cilliers, year).

## Annex II. Governance Issues

**Corruption and widespread governance weaknesses could undermine the ambitious development agenda outlined in the government's PAPD.** Consistent with this assessment, the World Bank's Country Policy and Institutional Assessment (CPIA) for 2019 shows that Liberia has stagnated at a score of 3.1. Although this is on par with the Sub-Saharan average, Liberia underperformed regional peers on individual scores for financial sector policies and public-sector management and institutions—both aspects that are highly critical for macroeconomic stability.

**The independence and effectiveness of existing institutions have been hampered by political interference and limited resources.** Certain agencies had their tenure positions being removed which undermined their role and have led to political influence in their functions, and loans were ratified without following due procurement process. Anti-corruption and governance institutions such as the Liberia Anti-Corruption Commission (LACC), and the General Audit Commission (GAC, the external auditor), and the Public Procurement and Concessions Commission (PPCC) remain severely underfunded, have capacity constraints to perform their functions and are not independent.

- **Enforcement against corruption cases is often weak.** Corruption cases are being investigated and prosecuted, however lack of dedicated resources and expertise have hampered investigations, and prosecutions have not been advanced expeditiously. Additionally, there are delays in the adjudication of cases in the judicial system.
- **The current asset declaration regime of senior public officials is not strictly enforced.** The Code of Conducts sets-up the requirements to declare assets of senior public officials. According to the 2018 LACC Asset Declaration Report, the following public officials submitted declarations: 92 public officials from the executive branch representing 20%, 333 officials from the judicial branch representing 88% of all the senior officials in the judiciary; and there were no declarations from the legislative branch. The submission of asset declarations is decentralized and the Asset Declaration Unit in LACC, assisted by a multi-agency ad hoc committee, undertakes the verification of the asset declaration; however, the unit is significantly under-resourced and lack the necessary powers. Asset declarations can only be made public with a court order and sanctions for non-compliance are also weak.
- **Government has been vocal in recognizing the need for improving governance and reducing corruption across a wide range of government activities.** The agenda outlined in the PAPD is far reaching, but aggressive implementation will be needed if meaningful change is to be obtained. Planned measures in the PAPD include: requiring full implementation of all recommendations from GAC audits; giving the LACC direct prosecutorial powers; establishment of a fast-track anti-corruption court to speedily prosecute corruption cases; passage of the Whistleblower Protection Act to encourage reporting incidences of corruption; full implementation of the Code of Conduct as reporting of asset holdings of high officials are not fully complied with, and full implementation of the Freedom of Information Law.

## Prioritized Recommendations

### *Anti-corruption Regime*

**Improving the authorities' capability to fight corruption offenses will be key to enhancing transparency and accountability.** The anti-corruption legal and institutional framework needs to be upgraded and implementation should be significantly enhanced.

- A new anti-corruption strategy could usefully guide anti-corruption efforts.<sup>1</sup> This should include firstly understanding the risks of corruption and developing a strategy to address the risks notably in the prevention, investigation, prosecution of corruption, improving national and international cooperation and enhancing mechanisms for public sector and civil sector partnership.
- As a first step, the anti-corruption laws need to be amended to address the deficiencies identified in the United Nations Convention against Corruption peer review conducted in 2012. Notably, the bribery of foreign officials and illicit enrichment need to be criminalized.
- The PAPD action plan items of giving the LACC prosecutorial powers—which require amendments to the anti-corruption law—needs to be prioritized.
- Finally, enhancing the governance and capacity of the LACC and the Ministry of Justice to effectively detect, investigate and prosecute corruption cases require increased financial and human resources, and stepping-up efforts to enhance expertise amongst investigators, prosecutors and judges.

### *Asset Declaration Regime*

**The current asset declaration regime of senior public officials needs to be strictly enforced to enhance the capability of detecting corruption cases.** The Liberian Anti-Corruption Commission Act and the Code of Conduct need to be amended to centralize the submission of asset declarations to the LACC, provide the LACC with the necessary verification powers, include dissuasive and proportionate sanctions for non-compliance, allow publications without the need of a court order. In the interim and on an ongoing basis, there needs to be concerted efforts to implement the current asset declaration requirement and to provide adequate resources to the LACC.

### *AML Tools to Tackle Corruption*

**Prioritizing the improvement and implementation of AML measures to tackle proceeds of corruption will complement anti-corruption efforts.** As a priority, the AML framework needs to be upgraded in line with international standards notably by: a) enacting the revised draft Anti-Money Laundering, Preventive Measures and Proceeds of Crime and the Financial Intelligence

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<sup>1</sup>The last anti-corruption strategy ended in 2017.

Agency laws; b) issuing regulations when opening and managing accounts of politically exposed persons (PEPs); c) strengthening fit and proper provisions when licensing financial institutions; d) improving requirements to ensure that competent authorities readily have access to adequate, accurate and timely information on the beneficial ownership (BO) of legal persons and arrangements. The authorities should also enhance the risk-based AML/CFT supervision over regulated entities; and ensure compliance with PEPs and BO requirements.

### ***Property Rights***

**The enactment of the Land Rights Act is an important step improving the business environment and will encourage foreign investment.** Proper implementation with the assistance of the donor community will also ensure the robustness of property rights.

## Annex III. External Sector Assessment

*Staff judge that the external position of Liberia in 2018 was substantially weaker than fundamentals. The current account deficit remains large and is weaker than the norm, while gross international reserves have declined further. Improving competitiveness and the business environment are essential to addressing Liberia's external sector imbalances.*

### Current Account and Real Exchange Rate

#### Background

**External vulnerabilities remain high.** The current account deficit remained high at 23.4 percent of GDP in 2018. There has been a modest improvement in the trade balance, driven by an increase in exports, particularly of gold and iron ore. The services balance also improved because of a decline in imports. But these improvements were offset by a fall in net income and a decline in net transfers following the UNMIL withdrawal.

**Little progress has been made on improving competitiveness and the business environment.** For example, in the latest Global Competitiveness Index, compiled by the World Economic Forum, Liberia ranked 132nd out of 140 economies in terms of overall competitiveness, with ICT adoption, market size and innovation capability identified as particularly severe constraints. Consistent with this, the latest World Bank's Ease of Doing Business indicators suggest little progress has been made in improving the regulatory environment, a deficiency that could significantly and adversely impact productivity improvement—including in agriculture where domestic rice production struggles to compete with imports.

**The real effective exchange rate continued to depreciate in 2018.** The nominal exchange rate depreciated by 23.7 percent in 2018, following a 16.7 percent depreciation in 2017. This depreciation was coupled with high inflation, and therefore the real depreciation has been more modest (8.5 percent depreciation in 2018, following an 8.2 percent depreciation in 2017).

#### Assessment

**The EBA Lite current account (CA) model suggests that the external sector position is substantially weaker than that consistent with medium term fundamentals and desirable policy settings.** Based on the CA model, the cyclically adjusted CA deficit of -23.4 percent of GDP in 2018 was weaker than the multilaterally consistent cyclically adjusted CA norm by 11.7 percent of GDP. Around 3.8 percent of this gap can be explained by 'policy gaps', with loose fiscal policy identified as one of the largest contributors to the gap. Given the current account is weaker than the norm, import and export elasticities suggest that the real effective exchange rate (REER) is overvalued by 45 percent.

**The EBA-Lite real effective exchange rate model (REER) provides conflicting results to the CA model.** The EBA-lite REER model, in contrast, suggests that the real effective exchange rate is

undervalued by 24.5 percent. The model suggests that around 10 percent of this undervaluation can be accounted for by ‘policy gaps’, with a very low real interest rate identified as the predominant contributor to the gap.

**Overall, staff consider the current account model to be most informative for Liberia and therefore, on balance, assess the external sector position to be substantially weaker than warranted by fundamentals and desirable policies.** For Liberia, the real effective exchange rate model is based on a small sample over a period in which the economy has faced large shocks. Since this model forces exchange rate gaps for each country to average zero over time, using a small sample in a period of large structural change may reduce the reliability of the model relative to the current account model. Nevertheless, the model, in contrast to the current account model, does consider the implications of the very low real interest rate on the real effective exchange rate and staff attach some weight to this. Overall, staff judge that the current account is weaker than the norm by between 5 and 10 percent of GDP, implying REER overvaluation between 21 and 42 percent.

## Reserves

### *Background*

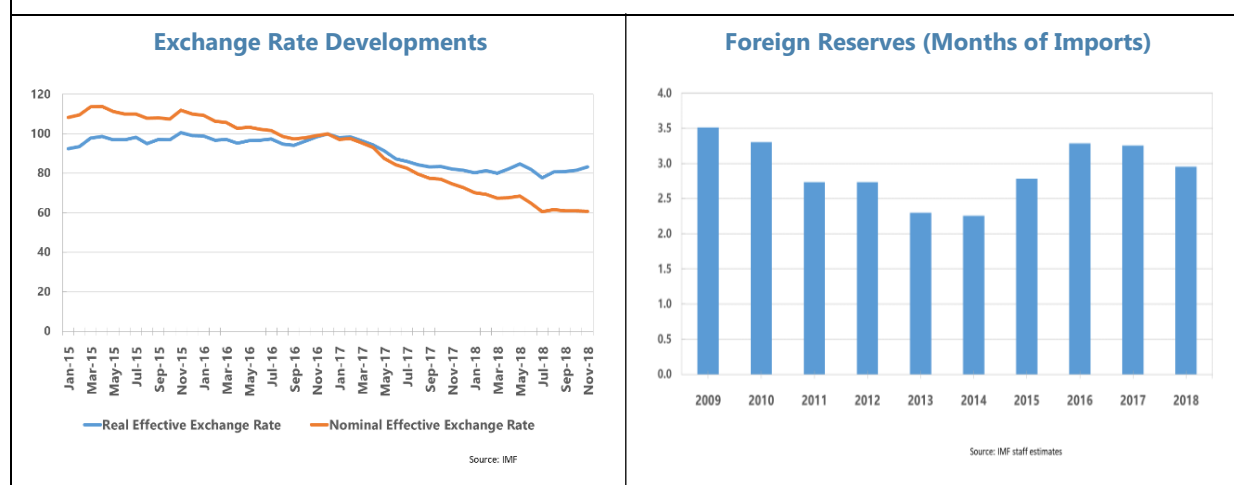
**Gross international reserves have declined further.** Reserves are forecasted to have fallen to US\$358 million at the end 2018, equal to 3.0 months of imports. The decline is the result of FX interventions, the drawdown of government deposits and central bank credit to the government.

### *Assessment*

**Gross international reserves are judged to be below reserve adequacy levels.** At the end of 2018, Liberia’s gross international reserves were equal to 3.0 months of imports. The reserve adequacy model for credit constrained economies suggests that the level of foreign reserves considered adequate to withstand external shocks is around 3.3 months of imports and therefore the current level of reserves is judged to be below the reserve adequacy level.

## Policy Implications

**Strong policies can help strengthen the external position.** In particular, the authorities should facilitate a real effective exchange rate depreciation, in tandem with the required fiscal and monetary tightening (which will help mitigate the inflationary effects of depreciation), by promoting competitiveness and allowing the nominal exchange rate to adjust flexibly. The authorities should also focus on rebuilding reserves above the reserve adequacy level to increase resilience to external shocks.

**Figure A3.1: Liberia: External Sector Developments****Table A3.1: Liberia: EBA-Lite Model Summary****EBA-Lite CA Model Summary**

CA-Actual	-23.4%
Cyclical Contributions (from model)	-0.1%
Cyclically adjusted CA	-23.4%
CA-Norm	-12.3%
Cyclically adjusted CA Norm	-12.2%
Multilaterally Consistent Cyclically adjusted CA Norm	-11.7%
CA-Gap	-11.7%
of/which Policy gap	-3.79%
Elasticity	-0.26
REER Gap	45%

**EBA-Lite REER Model Summary**

REER Gap	-24.5%
of/which Policy gap	-9.8%

## Annex IV. Risk Assessment Matrix, February 2019<sup>1</sup>

Sources	Likelihood	Potential Impact	Policies to Minimize Impact
<b>External</b>			
Large swings in energy prices.	<b>Medium</b>	<b>High.</b> Protracted low commodity prices could delay natural resource sector recovery, lowering overall medium-term growth and fiscal revenue. A slowdown of the U.S. economy could also reduce U.S. aid to Liberia.	Accumulate international reserve buffers. Diversify the structure of the economy and export markets. Seek additional financing resources and prioritize expenditure to compensate revenue shortfall.
Weaker-than-expected global growth.	<b>Medium</b>		
Rising protectionism and retreat from multilateralism.	<b>High</b>	<b>Low.</b> Strong isolationism and protectionism could adversely affect the economy through lowering trade, remittance, and aid flows.	Prioritize public projects, develop contingent spending plans for sudden stop of aid flows, and accumulate fiscal and external buffer. Also, diversify the structure of the economy and export markets.
Sharp decrease in aid flows.	<b>Medium</b>	<b>High.</b> Slowdown of aid flow could weaken the domestic economy and reduce foreign exchange inflow.	Identify the linkage between foreign aid flows and the domestic economy and develop accurate estimates of the impact of aid flow shortfall on fiscal and balance of payments sectors for adequate policy reactions.
<b>Liberia Specific</b>			
Delayed fiscal consolidation and rationalization of the CBL's budget	<b>Medium</b>	<b>High.</b> Continued loss of foreign reserves, spiraling of inflation, and continued depreciation of currency.	Realistic budgets beginning with realistic resource envelope, engage legislature and other stakeholders to enlist their support for consolidation and reforms.
Slowdown or discontinuation of ongoing structural reforms.	<b>Medium</b>	<b>Medium.</b> Delay in structural reforms could keep performance and quality of the government operations low.	Continue and accelerate existing structural reforms.

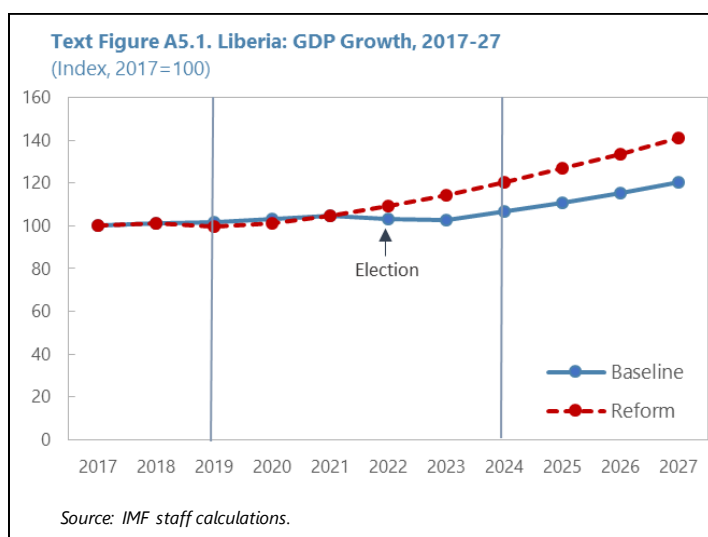
<sup>1</sup>The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Sources	Likelihood	Potential Impact	Policies to Minimize Impact
Increasing debt distress from non-concessional loans with single sourcing as well as central bank financing.	Medium	<b>High.</b> Non-concessional loans could lead to debt overhang while central bank financing could lead to depletion of reserves, monetary expansion, depreciation, and inflation	Prioritize public projects financed by external loans with concessional terms only and seek grant financing instead of loan financing. Limit borrowing to projects with high social return. Reserves must not be used to finance fiscal deficits.
Deterioration of security conditions after the UNMIL withdrawal coupled with deterioration of macroeconomic conditions	Low	<b>High.</b> A security vacuum and/or high youth unemployment would undermine investor and consumer confidence and slow down economic activity.	Ensure smooth transition from UNMIL to national security system. Ensure economic inclusive growth and economic diversification.
Large-scale public health incidence	Low	<b>High.</b> Socio-economic recovery process would be reversed, depressing growth and worsening the living standards of vulnerable groups.	Continue to strengthen health and social protection systems and communication channels between the central government and rural communities.
Reduced financial services by correspondent banks ("de-risking")	Low	<b>High.</b> Loss of correspondent banking relationships (CBRs) could reduce/slow down foreign exchange inflow, such as trade flow, remittances, and humanitarian aid.	Strengthen AML/CFT supervisory framework, address gaps in the AML/CFT legislation including terrorist financing, and improve tax system transparency.
Withdrawal of large concessions	Medium	<b>High.</b> Lower economic growth, loss of social services provided by concessionaires.	Strengthen rule of law, fiscal consolidation and monetary tightening to stabilize the economy.

## Annex V. Reform Versus Baseline Scenarios

**In the baseline scenario, the government continues to borrow both from the Central Bank of Liberia (CBL) and abroad to finance its fiscal deficits in the short- to medium-term.** The CBL is a passive agent without active monetary policy. It accommodates demand for cash; Currency in Circulation (CIC) growth, the inflation rate, and the rate of depreciation remain high at around 25 percent in the near term. In the medium term, as the CBL's gross official reserves deplete and the CBL's USD credit declines, inflation decelerates, but only to about 10 percent with no change in the real exchange rate and no change in net exports through the relative price effect. The baseline assumes that the authorities will muddle through until they face an abrupt forced adjustment, triggered for example by a significant loss of gross official reserves. The timing and the impact of the abrupt adjustment is unknown. The medium-term growth in the baseline is projected to be in line with factor accumulation (i.e., fast growth in the working population and capital accumulation) with some caveat discussed in Annex I.

**The reform scenario assumes that the authorities will implement fiscal and monetary adjustments** recommended in the 2018 Article IV consultation (see details in Text Table 1). The cost of adjustments will be felt in 2019-20 and the economy will start to recover towards steady state. The duration and the magnitude of the impact of the planned adjustment is considered moderate relative to the abrupt adjustment in the baseline. Improvements in private capital inflows are also assumed. Growth in CIC, the rate of inflation, and the rate of nominal depreciation quickly go down to single digit in the near term and the inflation rate settles to about 5 percent throughout the medium term. Moreover, various reforms in rice production, public infrastructure (though may take a while), improvements in governance, trade facilitation and doing business more broadly lead to higher productivity. Thus, some improvement in the real exchange rate is assumed towards the end of the medium term.



## Annex VI. Public Sector Wage Bill

**Liberia's personnel expenditure is significantly higher than in peer countries, and is rising.**

Compensation of employees has increased from 47 to 63 percent (equivalent to \$249 million and \$293 million respectively) of total expenditure between FY2016 to FY2018, contributing to the worsening of the on-budget fiscal balance. Personnel expenditure is significantly higher than in peer countries, representing 9.4 percent of GDP and 72.3 percent of domestic revenue in FY2018 compared to averages of 7 and 40 percent for the Sub-Saharan Africa (SSA), respectively. A continuation of this trend will lead to a further deterioration of the fiscal position.

**The increase in the wage bill is crowding out much-needed capital and social spending.**

Expenditure on goods and services has declined from 27 to 22 percent of total expenditure, and investment has declined from 9 to 1 percent during the same period. Consequently, available funds for basic needs of the population (i.e., teaching aids, and drugs), as well as other expenditure needed for the government to effectively provide public services, have declined.

**A large component of the wage bill is determined on a discretionary basis, leading to significant differences in compensations for similar jobs or qualifications.**

Total compensation comprised of basic salary (54 percent), salary allowances (honorarium, general allowances, and special allowances totaling 42 percent), and other wage-related expenditure (4 percent) in FY2018. Although the amount allotted to line ministries and agencies (M&As) for salary allowances is pre-determined in the approved budget, M&As' heads decide how it is distributed among workers. The allowances are noticeably being used to circumvent the more formal hiring process and to adjust payment to some individuals beyond their basic salary. This can lead to significant differences in total compensation for employees with similar job descriptions and skills requirement and, in some cases, the amount each worker receives can vary significantly from month to month.

**Public employees in health and education comprises about a half of public employment, but wage compensation is only a third of the total wage bill in FY2018.**

The total number of public employees is unknown as hiring is not centralized, but is estimated to be between 70,000 in 2017 (source: World Bank). Of which, about 25,700 workers are in the education sector and about 16,000 workers are in the health sector (sources: MOE and MOH). These numbers imply that a about 60 percent of public employees is in these sectors. However, in FY2018, wage compensation in education (\$51 million), health (\$39 million), and other social services (\$5.2 million) represent only a third of the total wage bill, as most workers in the social sector are receiving a comparatively low salary: using those aggregate numbers, the average wage in education and health is estimated at US\$165 and US\$200 per month, respectively.

**Human resources in the health sector pose remarkable challenges.** The health workforce cadre of 2016 documented 16,064 health workers, and close to 2/3 of them are hired by the Ministry of Health (see Text Table A6.1). Core clinical workers (physician, physician assistants, midwife, and registered nurses) account for about 30 percent of the workforce (4,756 employees), and their distribution is skewed towards urban areas. There is an acute shortage of critical health workers such

as physicians, midwives, lab technicians and specialist doctors (i.e., surgeons, pediatricians, psychiatrics, etc.) across the country. Overall, facilities have the wrong skills mix as more than a third are non-clinical workers, and those with specialized skills are the minority and therefore are insufficiently staffed to meet the demands of the population. In turn, according to the World Health Organization, the skilled health professional's density (per 10,000 population) in 2010 was only 4.79, compared to the minimum threshold to be adequate of 41. The 2016's cadre documents only 234 physicians in the country, and the ratio of nurses and midwives to doctors is estimated at 17.1. Revamping human resources in the health sector poses remarkable challenges, including: i) a workforce that is not well-experienced and, in many cases, unqualified; ii) inadequate salaries and remuneration gaps; iii) lack of comprehensive and effective human resources information system; iv) difficult to attract and retain staff in remote areas; and v) absenteeism from work.

**Text Table A6.1: Health Workforce Distribution, 2016**  
(Number of workers)

Administrators and administrative support (35.6 percent)			5,715
Clinical health workers (56.4 percent)	Core (29.6 percent)	Physician	234
		Physician assistant	518
		Midwife	927
		Registered nurse	3,077
	Non-core (26.8 percent)	Clinical Support	3,601
		EHT	285
		Dentist	14
		Lab Technician	300
		Pharmacist	109
		Other (8 percent)	962
	68		
	254		
<b>Total</b>			<b>16,064</b>

Source: Health Cadre in 2016

**The workforce in the education sector is also inadequate.** The teacher payroll is the largest component of the Ministry of Education (MoE) payroll, but the estimate of 19,777 teachers (see Text Table A6.2) include close to 2,250 ghost workers. A large proportion of the existing basic education teaching force lacks the knowledge or skills required to be effective in the classroom. Moving up the scale, most of the school principals in Liberia do not have relevant training or official guidance in areas such as teacher performance management and community engagement, and many of them lack degrees, diplomas, or certificates related to their field of work. In addition, staff that are eligible for retirement have not done so because the pension fund does not have the resources need to provide a pension for these staff and meanwhile, the MoE continues to pay these staff.

**Text Table A6.2. Liberia: Public Workforce by Type of School, 2016**

Grade	Teaching staff	Non-teaching staff	Total*
Early childhood	4,079	1,224	5,303
Primary	10,602	3,181	13,783
Junior high school	3,358	1,007	4,365
Senior high school	1,738	521	2,259
<b>Total</b>	<b>19,777</b>	<b>5,933</b>	<b>25,710</b>

Source: Liberia Ministry of Education, Getting to Best Education Sector Plan 2017-2021

**The on-going reform to harmonize the payroll and merge employees' salary and allowances into a single database has been slower than desirable.** Civil service reform has been on the

agenda since 2008, and several donor projects have supported this effort.<sup>1,2</sup> However, a comprehensive payroll database has yet to be put together.<sup>3</sup> The on-going exercise focuses on regularizing civil servants in the health and education sector by classifying them from grade 1 to 10 according with their qualifications and job descriptions, eliminating ghost workers, and merging employee's salary and allowances into a single database for all public workers. However, less than 30 percent of public workers have been duly registered and classify by grade and are the recipient of less than a fifth of the public wage bill. Of the remaining close to 70 percent of employees, 2/3 have not been minimally classified by grade but are being the recipient of nearly 65 percent of the public wage bill.

**A rightsized wage bill is necessary to free up the fiscal space needed for a functioning FY2020 budget, and to ensure fiscal sustainability and spending efficiency over the medium term.**

Achieving service delivery in a cost-effective manner depends on the ability of Government to allocate its resources to where they are most required. Given the current structure of Liberia's fiscal expenditure, this will require shifting expenditure from wages to more productive areas such as capital accumulation and the procurement of necessary goods and services, including essential medicines. However, it will also require that the size and composition of the remaining wage bill be put on a more rational and equitable footing across all of government. This latter component would include removing the discretionary element from Liberia's labor compensation system, as its large size and clientelist practices are undermining the government's ability to expand coverage of key services such as education and health.

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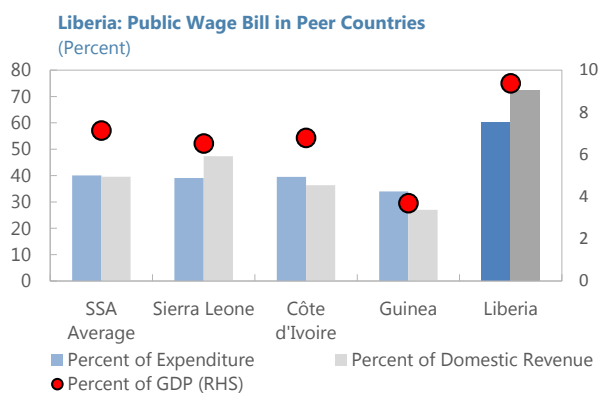
<sup>1</sup>There are two strategies dedicated to civil service reforms: Civil Service Reform Strategy (2008-11); and Medium-Team Pay Reform Strategy (2014-2018).

<sup>2</sup>The USAID, World-Bank, and Swedish Embassy-funded Public Sector Modernization Project (2014–2019); and Integrated PFM Reform Project (2012-16).

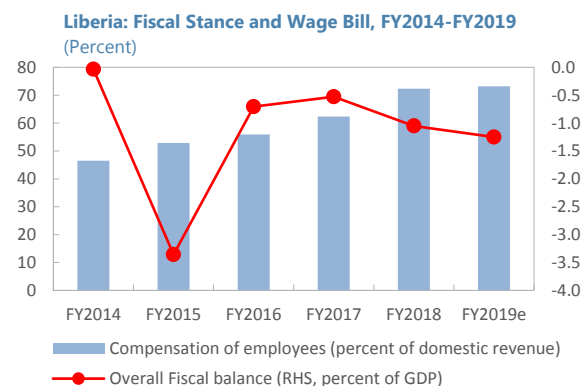
<sup>3</sup>The evaluation carried out by USAID in 2018 found gaps in payroll databases which included: ministry-specific Personnel Listings (nominal lists); paper-based employee files ("one employee, one file"); biometric databases (two separate, incompatible databases at MOE and CSA); allowance schedules across MACs and multiple accompanying spreadsheets; and the Civil Service databases (CSMS and IFMIS).

**Figure A6.1. Liberia: Public Wage Bill, FY2014–19**

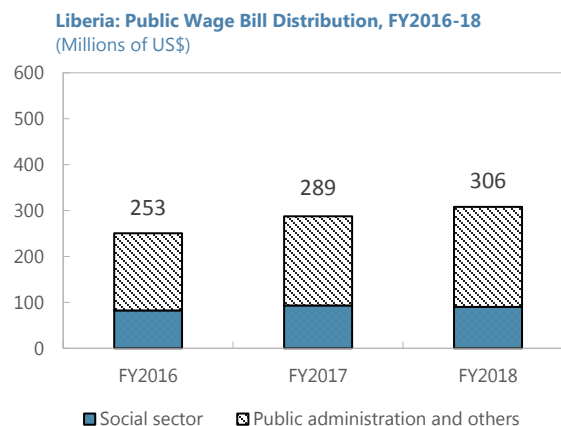
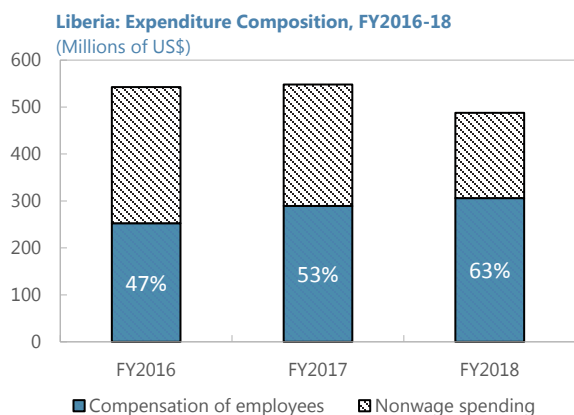
The public wage bill in Liberia is comparatively higher than in peer countries...



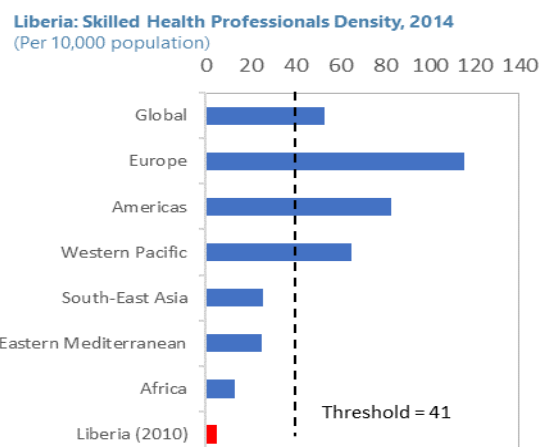
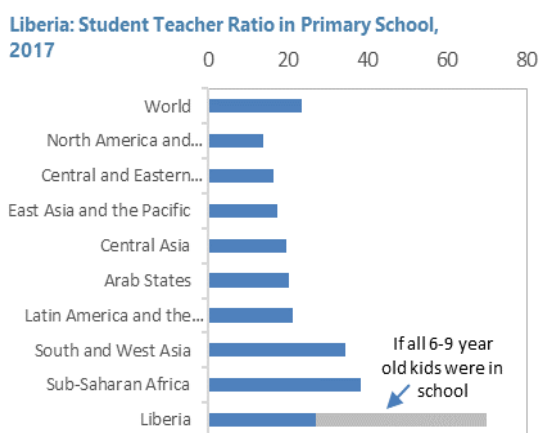
...and the increasing wage bill is contributing to the deteriorating fiscal position.



As of FY2018, the wage bill increased to \$306 million, largely driven by an increase in nonsocial sector wage bills. With disproportionate cuts in other spending, the share of wage bills is now 63 percent of total expenditure.



Existing human resources in the public sector are inadequate: i) teacher-pupil ratios for primary schools is estimated at 27 but, if all children year 6-9 were in school, it will reach 70 students per teacher; ii) the number of skilled health professionals per 10,000 people is only 4.79, while the WHO target is 41.



Sources: Liberian authorities; and IMF staff calculations.

## Annex VII. Social Spending in Liberia

**Foreign aid finances most of the projects on the social safety net in Liberia.** Social development spending is mostly financed by the World Bank, USAID, WFP and UNICEF (and others to a smaller scale) (Table A8.1). In practice, budget support grants typically pay for a fraction of the cost of goods and services and public employees (including teachers and health workers), while project grants pay for physical assets and medical supplies and school materials. The fiscal tables (Tables 3a and 3b) includes both either on budget or off budget.

**The social protection system in Liberia remains underdeveloped and underfunded.** Existing projects on social safety nets consist mainly of cash transfers and schools' meals, and to a lesser extent some focus on youth employment. The projects with ex-post evaluation show compelling evidence that food security and living conditions of the beneficiaries have marginally improved. However, partly due to lack of coordination among donors and the government, access to social safety nets remains uneven across the population. Moreover, the existing projects reach only a small fraction of households and, in most cases, aid received is insufficient to bring them out of poverty. As aid declines overtime (by about 4 percentage points of GDP between FY2019 and FY2024 to 10.5 percent), securing social spending may become even more challenging.

**Securing social spending, especially primary education, is macro-critical in Liberia.** Currently, almost half of the population is younger than 15 years old but the enrollment rate of 6–9 years old is particularly low (Annex I). Because educating the youth has implications for the skillsets of the labor force population in coming years, spending on education, especially primary education, is macro-critical. Nonetheless, spending on education is extremely low in Liberia. In FY2016, the government's expenditure in education, mostly on teachers' wages, is estimated at 2.3 percent of GDP of which only 0.9 percent of GDP is allocated to supporting primary education. The government's education spending is also extremely low compared to peer countries (Figure A8.1). It is hard to estimate the additional increase in education spending needed in Liberia, but survey data show that at a minimum, an increment of about \$15 million may be necessary to send children in the 6–9 years old cohort to school with no tuition.<sup>1</sup> In addition, to ensure the return of education, more resources need to be allocated on school buildings, teachers' training, and the efficiency of this spending needs to improve by continuing efforts to improve PFM (Annex II).

**Liberia needs to build its capacity to handle social programs over time.** To minimize the dependency on foreign aid for social protection, building capacity to handle social programs and to allocate resources for those programs is critical. Even though social protection programs are typically considered financially and operationally costly, government can set up programs to target the poorest cohorts for a relatively small budget that in the long-run will pay off. These programs could have the dual objective of attending the needs of the poorest, and of setting up the institutional and logistical framework for the authorities to design, implement, and evaluate social

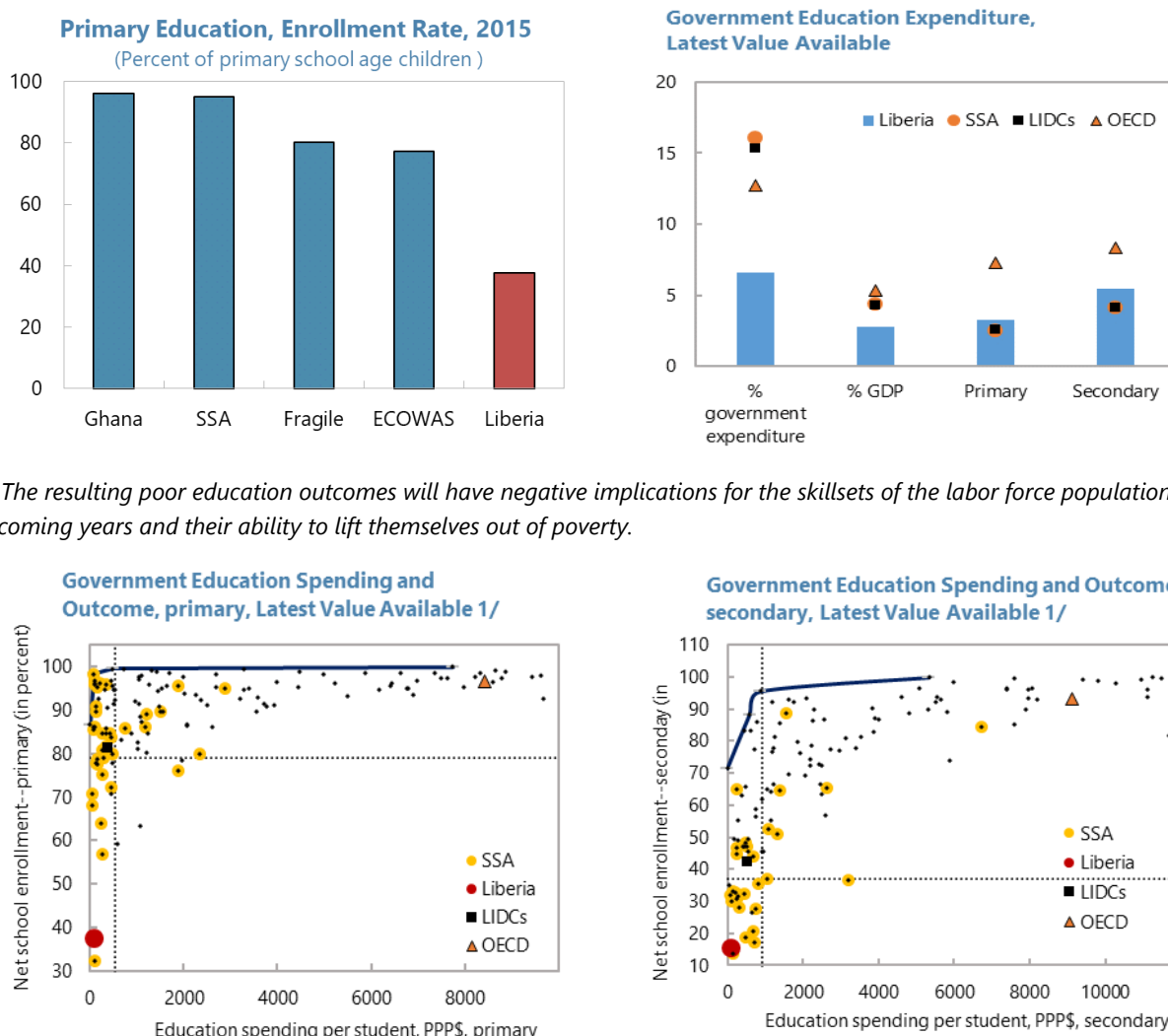
<sup>1</sup>The 2016 Household Income and Expenditure Survey (HIES) shows that the average household spending on school tuition is about US\$47.5 dollars per pupil per year (or US\$86 dollars per pupil per year after adjusting for PPP).

programs that can be escalated later as the implementation capacity and financial resources increase. Moreover, these programs help to improve data gaps in social indicators over time, in turn increasing the effectiveness of spending.

**Figure A7.1. Liberia Social Spending**

*Education indicators point towards a disconnect in human capital development for future generations...*

*...as expenditure in education is significantly below peer countries and the needs of the populations.*



Sources: Liberian authorities; and IMF staff calculations.

1/ Dash lines are the average of SSA.

<b>Table A7.1: Liberia: Social Safety Net Programs Operated by Major Donors</b>			
<b>Managing Institution</b>	<b>Program Name</b>	<b>Type of Program</b>	<b>Target Population</b>
UNICEF	Social cash transfer 2009-present	Unconditional cash transfer	Launched in Bomi county, expanded to Maryland county in 2012. The two counties were ranked as the most food insecure counties in the country.
World Bank	Liberia: Youth Opportunities Project (YOP) 2017-present	Pre-employment support; Support to household enterprises; Productive public works	Youth ages 15-35 years; 50% women
World Bank with co-financing from USAID	Liberia: Social Safety Nets Project (LSSNP) 2017-present	Social registry; Cash transfers; Nutrition education	Extremely poor and food insecure households in Maryland, Bomi, River Gee, and Grand Kru Counties, four of Liberia most food insecure counties.
World Bank (Implemented by Ministry of Gender, Children and Social Protection)	Social Cash Transfer 2009-2014	Pilot unconditional Cash Transfer	Labor constraint Households in extreme poverty and in two of most food insecure counties (Bomi, Maryland)
World Bank (Implemented by Ministry of Gender, Children and Social Protection)	Rapid Social Cash Transfer Ebola Response Project (SCT-REPLI) 2015–2016	Emergency unconditional Cash Transfer in response to Ebola Epidemic	Households (HHs) that were extremely poor and affected by Ebola Epidemic
World Bank (Implemented by Ministry of Youth and Sports and Liberian Agency for Community Empowerment)	Youth Employment Skills Project (YES) Project 2010–2016	Temporary Employment Program (Public works targeting youth)	Extremely poor communities and youths living in extremely poor households
World Bank (Implemented by Ministry of Youth and Sports)	Youth Opportunities Project (YOP) 2016–2020	Youth Employment and Empowerment	Poor and vulnerable youth in targeted rural and urban communities in all counties in Liberia.

**Table A7.1: Liberia: Social Safety Net Programs Operated by Major Donors (Concluded)**

<b>Managing Institution</b>	<b>Program Name</b>	<b>Type of Program</b>	<b>Target Population</b>
USAID	Assessing the Role of Digital Household Grants (HHGS) in Liberia Expected to start in October 2018	Unconditional cash transfer	Food-insecure households and small holder farmers in Bong and Nimba counties.
USAID	Liberia Integrated Social Protection System (LISPIS) 2017-present	Public Implementing Organization	Government of Liberia-Ministry of Gender, Children, and Social Protection
WFP	School Feeding 1968-present	School Meals	Primary school children across 9 counties
WFP	Girls Take-Home Rations 2012-present	School Meals	Adolescent Girls in upper primary school (grades 4–6)
WFP	Home-Grown School Feeding 2016-present	School Meals through Cash transfers and purchase of locally grown commodities	A pilot scheme has been launched in Nimba counties targeting 62 schools in the 2018/19 academic year.
WFP	HIV/AIDS Nutrition Interventions 2016-present	Conditional food transfers - on attendance at clinics	Patients living with HIV/AIDS
WFP	Community Grain Reserves 2012–present	Conditional cash transfers	Smallholder rural women farmers
Source: Compilation from Survey to Major Donors operating in Liberia.			

## Annex VIII. Status of Key Recommendations for the 2018 Article IV Consultation

Fiscal Sector	
Deepen domestic revenue mobilization efforts	In progress. Various revenue measures were introduced, including an increase in goods and services tax. Administration reforms with donor support are ongoing.
Ensure medium term debt sustainability by securing favorable terms and conditions on loans.	In progress. The government is in the process of cancelling two loans amounting to US\$1 billion that did not meet the concessionality threshold. Recently, however, the government announced it was pursuing a natural resources swap to raise US\$2.5 billion for various development projects. The terms of this swap arrangement are not yet clear.
Advance the Treasury Single Account	Delayed. IMF TA is helping the authorities to set up oversight of government accounts and to define TSA coverage and structure.
Adopt a comprehensive program to clear domestic arrears and prevent the emergence of new ones.	Delayed Preliminary analysis suggests that new arrears emerging in FY2018 were large. The reconciliation process is on-going which will help to quantify the size of the arrears. The authorities have yet to develop a plan to clear the arrears.
Enhance monitoring of SOEs.	Delayed. Due to limited resources of the SOE unit and limited capacity in both the government and SOEs themselves, reforms of SOE monitoring has been delayed and audits are taking longer to be completed than in the past.
Contain the growth of the wage bill.	Delayed On coming to power, Government reduced the salaries of top-level civil servants. However, the on-going civil service reform is regularizing employment contracts of civil servants in a manner that is creating an initial increase of the wage bill (for example, as health and education workers are turned into permanent employees). Strong political will is needed to reduce the wage bill to more sustainable levels.
Enhance monitoring of both domestically and externally financed public investment.	Delayed Despite the authorities' intention to ramp-up infrastructure investment, implementation of public investment projects decelerated in the transition year. The authorities have sought financing from questionable enterprises for infrastructure projects—sometimes in violation of procurement laws—and this has raised concerns about the viability of these projects and potential risks for debt sustainability. However, none of these projects have yet materialized.

<b>Monetary and Exchange Rate Sector</b>	
Safeguard reserves by complying with financial plan and reviewing operational costs.	Delayed. The Central Bank of Liberia stepped up intervention in the foreign exchange market to smooth the volatility of the exchange rate. Operational costs have not been reviewed yet in line with the Safeguards recommendations.
Recapitalize the CBL	Delayed. The CBL has not yet been recapitalized. Based on the low discount rates used by the authorities, the CBL was adequately recapitalized by their own estimates, but a fair value assessment reveals the need for recapitalization. Provision for automatic recapitalization of the CBL is included in the amendments to the CBL law. At end-2017, an amount of L\$3.4 billion is needed to make up for the deficit in capital in compliance with Section 46 (5) (a) and (6) of the CBL Act.
Preserve governance and independence of the CBL	In progress. The Board of Governors of the CBL still includes non-executive members who have not yet been confirmed by the senate. Despite not extending new bridge loans to the GOL for FY2018, the CBL lent to the GOL by allowing positive USD lending to commercial banks to accumulate in the suspense accounts. The amendments to the CBL Act seek to foster the operational independence of the CBL by setting up a monetary policy committee and ensuring operational independence, including to print local currency without legislative approval and restricting CBL's lending to the government.
Lift the surrender requirement on remittances.	Delayed. The surrender requirement was temporarily lifted during the festive season in December 2018 and January 2019 to reduce demand for local currency. However, the policy was re-introduced in February 2019. The remittance split is one of the key sources of foreign exchange for the CBL since the government is yet to resume the sales of foreign exchange to the Bank.
<b>Financial Sector</b>	
Address arrears to the banking sector.	In progress. The government has agreed to issue a bond to resolve the arrears given the potential systemic risk to the financial sector, but the bond is yet to be issued.
Enhance CBL's bank resolution framework.	In progress. The CBL is amending the Financial Institutions Act to strengthen the Act, including a resolution framework, with TA support from IMF.
Complete implementation of the CBL's Action Plan.	In progress. Slow progress has been registered. Many items in the CBL Action Plan are outstanding. Semi-annual external audits of foreign currency reserves are being conducted with a delay. The monthly submission of foreign exchange flows to the CBL Board has not been met.

## Annex IX. Capacity Building

**Liberia is part of the pilot phase of the Capacity Building Framework (CBF).** In May 2015, the Executive Board endorsed a proposal to pilot a more structured approach for Capacity Development (CD) activities in fragile states referred to as Capacity Building Framework (CBF).<sup>1</sup> The Central African Republic, Liberia, Mali, and Sierra Leone are part of the pilot phase. For these countries, CBF Strategies were prepared, in consultation with the World Bank and other Capacity Development (CD) partners, and discussed with country authorities. The Resource Allocation Plan (RAP), including the resource available through the Africa Regional Technical Assistance Center West 2 (AFRITAC W2) is fully aligned with this strategy.

**More specifically, the topics covered in the past year include following priority areas:**

- **Fiscal issues:** with a focus on budget execution and controls, treasury single account, fiscal reporting of State-Owned Enterprises, arrears management, tax policy, and tax administration.
- **Monetary issues:** concentrating on central bank governance, banking law, banking supervision, monetary policy, AML/CF.
- **Statistics:** including national accounts, consumer price index, balance of payment statistics, government finance statistics (GFS), monetary financial statistics (MFS), and financial soundness indicators (FSI).

**The level of CD provided to Liberia may be appropriate on the needs basis, but not necessarily on the basis of absorptive capacity.** A large fraction of the Fund's CD resources is allocated to Liberia: Liberia is one of the largest recipients of capacity development (CD) assistance at the Fund, exceeding 5 full-time equivalents (FTE, person years), as opposed to the Sub-Saharan Africa region average of about 2 FTE; moreover, in the year through April 2019, there were close to 50 Technical Assistance missions delivered in Liberia, of which 30 were led by the Fiscal Affairs Department (FAD). Traction on CD, however, has been low partly because of capacity constraints to implement the array of recommendations provided by the TA experts.

**Flexibility to respond to and well align with changing nature of CD needs could further improve the efficiency of the use of CD resources going forward.** Aligning Technical Assistance (TA) and training activities with surveillance and/or Fund-supported program has much improved with information sharing and enhanced coordination across experts in the field, HQ back-stoppers, and country teams. More flexibility in the modality of TA activities (e.g., long- versus short-term experts, training versus TA) and in the areas of TA activities (e.g., fiscal versus statistics) to respond to changing nature of CD needs could further improve the efficiency of the use of CD resources going forward. For example, improving government finance statistics, and monetary and financial statistics is critical for better surveillance in Liberia, but are not adequately provided for in the existing projects.

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<sup>1</sup>IMF Engagement with Countries in Post-Conflict and Fragile Situations—Stocktaking (FO/Dis/15/68).

Table A9.1. Liberia: Examples of Key Technical Assistance Provided in FY2019

TOPIC	FOCUS	GOING FORWARD
<b>Public Financial Management (PFM): strengthening expenditure controls and cash management</b>	<p>Liberia has received substantial technical assistance on PFM reforms from both the IMF and jointly from several development partners. Yet, there has been limited sustained progress partly because of insufficient capacity to address priority reforms, the high turnover of previously-trained staff, and the slow post-Ebola recovery.</p> <p>PFM missions in 2018 and early 2019 provided further support in four key areas: (i) budget execution processes; (ii) cash management; (iii) the treasury single account (TSA); and (iv) the integrated financial management information system (IFMIS).</p>	<p><b>Strengthening budget execution processes:</b> could be improved by changing the system by which allotments are issued and explicitly link them to regularly updated forecast of cash availability.</p> <p><b>Improving cash flow forecasting and cash management:</b> integrating the treasury and cash management functions to the budget execution process would ensure a timely implementation of the annual expenditures budget without the risk of accumulating arrears.</p> <p><b>Advancing the TSA:</b> Several challenges need to be addressed to ensure an effective operation of government banking arrangements and budget control functions. The framework of TSA is still to be finalized.</p> <p><b>Realizing the benefit of the IFMIS:</b> Efforts should focus on improving the quality of the information recorded and the technological infrastructure.</p>
<b>Government Finance Statistics (GFS)</b>	<p>A STA mission visited Monrovia in March 2019. The mission reviewed current compilation of GFS and debt statistics and identified areas requiring improvements. Key issues identified are:</p> <ul style="list-style-type: none"> <li>• While the source data for compiling GFS are largely aligned to international guidelines, data compilation suffers from accuracy, comprehensiveness, and classification issues that undermine the quality of the data.</li> <li>• Debt statistics are not exhaustive as they currently exclude debt securities; debt assumptions, and certain loans (e.g., the CBL bridge loan). Also, classification is limited to creditors.</li> </ul>	<p>There is an opportunity to increase traction at this stage.</p> <p>Focus in the immediate should be on improving the quality of budgetary central government (BCG) data before considering an expansion of the coverage to other levels of government.</p> <p>The mission developed an excel work file for compilation of GFS and PSDS for the BCG. Regularly updating the file would ensure continued availability of quality fiscal and debt statistics for use both internally, but also to be shared with the IMF.</p>

**Table A9.1. Liberia: Examples of Key Technical Assistance Provided in FY2019 (concluded)**

TOPIC	FOCUS	GOING FORWARD
<b>Monetary and Financial Statistics (MFS)</b>	<p>The mission worked with the staff of the CBL on the development of monetary statistics in accordance with the relevant international statistical methodologies.</p> <p>The main objectives of the mission were: (i) review the CBL trial balance and finalize the work on the statistical balance sheet of the CBL; (ii) review data reported by commercial banks to prepare the Other Depository Corporations (ODC) sectoral balance sheet; (iii) prepare the Standardized Report Forms (SRFs) 1SR and 2SR, including for historical data; and (iv) ensure methodological consistency of the statistics with the relevant international standards.</p> <p>The mission prepared the monetary survey for Liberia for use in surveillance and reporting to STA. The monetary survey includes the sectoral balance sheets of the CBL and of commercial banks established by the mission and is broadly in line with the IMF's monetary and financial statistics manual and compilation guide (MFSMCG) principles.</p>	<p><b>Balance sheet of the CBL:</b> The sectoral balance sheet of the CBL has been finalized in accordance to the MFS Manual and Compilation Guide for monthly periods January 2007–December 2018. Overall, enough information is available to prepare SRF 1SR with no significant deviations from the IMF methodology. However, improved coordination is necessary to ensure swift communication when new accounts are open and motivate historical revisions. The mission discussed with the CBL the various claims on the GOL, including the existing checks clearing system.</p> <p><b>Sectoral Balance Sheet of the Other Depository Corporations:</b> The sectoral balance sheet of ODCs has been prepared for monthly periods January 2007–December 2018 to observe international standards as closely as possible. Nevertheless, some shortcomings were highlighted during the mission and should be addressed.</p>
<b>National Accounts</b>	<p>A sequence of TA missions has been assisting Liberia to improve its national accounts statistics, with the objective of rebasing GDP to base year 2016. Progress so far include:</p> <ul style="list-style-type: none"> <li>• The 2016 Household Income Expenditure Survey (HIES) is being used to produce household final consumption expenditure, as well as an indication of the evolution of GDP until the rebase is completed in 2020.</li> <li>• The National Establishment Census (NEC) conducted between July and September 2017 provided the basis for the business list of formal establishments.</li> <li>• The National Accounts Annual Survey (NAAS) was conducted in 2018. The IT specifications for deriving output, intermediate consumption (IC) and gross value added (GVA) from the National Accounts Annual Survey (NAAS) have been prepared and data entry (and entry checks) had started.</li> <li>• LISGICS needs to obtain administrative data for the areas not covered by the NAAS, but some key contributors have not provided it.</li> </ul>	<p><b>GDP by production in current and constant prices:</b> most of the work done so far will inform GDP by production, and focus going forward is in finalizing data entry of the various surveys and administrative data, and on the strategy for the ongoing production of annual GDP.</p> <p><b>GDP by expenditure in current and constant price:</b> to be commenced.</p> <p><b>GDP by income:</b> to be commenced.</p> <p><b>Supply and use table (SUT):</b> preliminary work to establish the SUT framework has started, but the SUT still has to be populated.</p>



# LIBERIA

May 16, 2019

## STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

Prepared By

The African Department  
(In consultation with other departments)

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## RELATIONS WITH THE FUND

(As of April 30, 2019)

**Membership Status:** Joined: March 28, 1962.

Article XIV

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

<b>SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	123.98	100.00
Holdings	150.80	121.64

<b>Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>%Quota</b>
RCF Loans	32.30	12.50
ECF Arrangements	122.14	47.27

### Latest Financial Arrangements:

	<b>Date of Arrangement</b>	<b>Expiration Date</b>	<b>Amount Approved (SDR Million)</b>	<b>Amount Drawn (SDR Million)</b>
ECF	Nov. 19, 2012	Nov. 17, 2017	111.66	111.66
ECF <sup>1</sup>	Mar. 14, 2008	May 17, 2012	247.90	247.90
EFF	Mar. 14, 2008	Sep. 25, 2008	342.77	342.77

<sup>1</sup> Formerly PRGF.

### Projected Payments to Fund

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2019	2020	2021	2022	2023
Principal	8.83	20.04	22.97	26.28	27.32
Charges/Interest	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	8.83	20.04	22.97	26.29	27.32

**Implementation of HIPC Initiative:****Enhanced Framework**

Commitment of HIPC assistance	
Decision point date	March 2008
Assistance committed	
by all creditors (US\$ Million) <sup>1</sup>	2,739.20
<i>Of which:</i> IMF assistance (US\$ Million)	721.10
(SDR equivalent in millions)	440.90
Completion point date	June 2010
<hr/>	
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 <sup>2</sup>	10.99
Total disbursements	451.89

**Delivery of Debt Relief at the Completion Point:**

Debt relief (SDR Million)	548.53
Financed by: Liberia Administered Account	116.20
Remaining HIPC resources	432.33
Debt relief by facility (SDR Million)	

Delivery Date	Eligible Debt		Total
	GRA	PRGT	
June 2010	342.77	205.76	548.53

**Implementation of Catastrophe Containment and Relief (CCR):**

<u>Date of Catastrophe</u>	<u>Board Decision Date</u>	<u>Amount Committed (SDR million)</u>	<u>Amount Disbursed (SDR million)</u>
N/A	Feb 23, 2015	25.84	25.84

<sup>1</sup>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.

<sup>2</sup>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.

## Safeguards Assessment

**The 2013 and 2015 update safeguards assessments highlighted a weak governance and control environment at the Central Bank of Liberia (CBL).** Given the slow pace of reforms, some of the assessment's key concerns were addressed by program measures including strengthening the CBL's investment policies, approving the central bank's financial plan, and establishing an emergency liquidity assistance (ELA) framework. A forensic audit of the First International Bank of Liberia Limited (FIBLL) in 2017 confirmed supervisory and governance failures which led to financial losses at the CBL, and the authorities developed an action plan to address these issues. However, many items in the Action Plan are outstanding and, as an interim measure, semi-annual external audits of foreign currency reserves are being conducted. The other interim measure, being the monthly submission of foreign exchange information to the CBL Board, has not been met. The Governor was subsequently replaced, and a new Board has been in place since 2018 albeit with members on temporary appointment terms. Notwithstanding these developments, new risks have emerged in domestic currency operations, as highlighted in the recent forensic investigation report, and the CBL will need to take fundamental steps to address these. Key remaining recommendations from safeguards assessments include legal amendments to align the CBL Act with best practices, reconciling suspense accounts, strengthening the internal audit function, and enhancing governance and audit and control oversight.

## Exchange Rate Arrangement

The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. The de jure exchange rate regime classification is 'managed floating'. The Central Bank of Liberia (CBL) intervenes in the foreign exchange market to smooth volatility. Since July 2018, the exchange rate has followed a depreciating trend within a 2 percent band against the U.S. dollar. Accordingly, the de facto exchange rate arrangement was reclassified to "crawl-like" from "other managed", effective July 23, 2018.<sup>3</sup> Liberia maintains an exchange rate system that is free of restrictions on payments for current transfers.

## Article IV Consultation

The 2018 Article IV consultation was concluded on June 8, 2018. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

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<sup>3</sup>Staff continue to examine if certain features of the exchange system are in compliance with Liberia's obligations under Article VIII.

## Technical Assistance 2014–19

Topic	Date
<b>Fiscal Affairs Department</b>	
Revenue Administration	February–March and April–May 2014, November 2014–April 2015 (Remote), July–August, September–October, and November–December 2015, February, June, October, and December 2016, Long-term residential advisor has been deployed in the LRA since January 2016. February–April, July, November, and December 2017, January 2018, March–April 2018, May 2018, June 2018, July 2018, August–September 2018, October 2018, November 2018, February 2019, March 2019
Public Financial Management Reform	January, February, November 2016, May–June, July–August, September, October, November, December 2017, April 2018
Natural Resource Revenue	January and March, and December 2016, February, and April 2017, April 2018, February 2019
Fiscal Decentralization	December 2015
Capacity Building and Sector Audit Training, including Computer assisted Audit Techniques in Telecommunications.	April 2014
Fiscal Framework for a New Model Petroleum Production Sharing Contract and Revenue Modeling	June 2014, August 2018
Budget Formulation and Public Sector Investment Plan	June 2015
Public Investment Management Assessment	July 2016, July, September 2017, January 2018
Tax Policy	February 2017
Cash Management	September 2017, April 2018, September 2018
<b>Statistics Department</b>	
Balance of Payments	July 2014 and January–February, June–July 2016, January, July 2017, Feb 2018, September 2018
Government Financial Statistics	September 2016, October 2017, March 2019

Topic	Date
National Accounts and Consumer Price Index	May 2014, April–September (Remote), June–July, November 2015, March, July, August, September, December, December 2016, February, July–August, November 2017, December 2017, January 2018, February 2018, April 2018, June 2018, August–September 2018, October–November 2018, January 2019, March–April 2019
Monetary and Financial Statistics	January 2019
<b>Monetary and Capital Markets Department</b>	
Central Bank Governance	November 2017
Banking Supervision	January, April, July 2014, February, April–May, August, November 2016, January 2019
Monetary Policy	July 2018, October 2018, February–March 2019
AML/CFT framework	November 2017, August 2018, February–March 2019
Central Bank Accounting	August 2016, March 2017
Monetary Analysis and Payment System	November 2016, November–December 2017
Basel II/III Training Workshop	November 2016, July 2017
Liquidity Forecasting	May 2014, August 2015, and January–February 2016
Crisis Preparedness and Management Framework	October–November 2015, January 2017, March 2017, August–September 2018
<b>Finance Department</b>	
Safeguards and Fiscal Investment	September 2017
<b>Legal Department</b>	
AML/CFT framework	November 2017, March 2018, August 2018, February–March 2019
CBL Act	January 2018
Tax Law	October 2017

### Resident Representative

A resident representative has been posted in Monrovia since April 2, 2006. Currently Mr. Oestreicher is in this role since August 1, 2017.

## RELATIONS WITH OTHER IFI'S

- World Bank Group

[http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode\\_exact=LR](http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=LR)

- African Development Bank

<https://www.afdb.org/en/countries/west-africa/liberia/>

- AFRITAC West 2

<http://www.afritacwest2.org/home>

# STATISTICAL ISSUES

(As of April March 28, 2019)

I. Assessment of Data Adequacy for Surveillance
<p><b>General:</b> Data provision has serious shortcomings that significantly hamper surveillance. Most affected areas are: national accounts, government finance, and balance of payments statistics.</p>
<p><b>National Accounts:</b> Comprehensive national accounts data are not available. Fund staff estimates 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.</p> <p>The authorities are developing benchmark estimates to compile GDP estimates with the 2016 base year. A full 12-month Household Income and Expenditure Survey (HIES) for 2016 was completed in February 2017 and the statistical abstract containing the broad findings has been published. The data will be used in developing preliminary estimates of household final consumption expenditure (HFCE). Moreover, the CPI basket has been re-weighted using the 2014 HIES data and latest CPI and HFCE estimates are being included into the GDP calculations. These GDP estimates will also incorporate the complete trade in goods data set. The national accounts staff is currently 40 percent under strength. It is urgent to recruit additional staff to bring the team up to complement.</p> <p>The National Accounts Annual Survey (NAAS) for 2016 was carried out and the survey results are available. However, data for key contributors are still outstanding due to the low response rates.</p>
<p><b>Price Statistics:</b> Assisted by the EDDI 2 project,<sup>1</sup> the LISGIS introduced an updated CPI from the January 2019 publication by using expenditure weights and an updated market basket based on the Household Income and Expenditure Survey conducted during 2016. Currently prices are collected only in Monrovia but the LISGIS plans to introduce national collection once recently introduced enhancements are sustained.</p> <p>The LISGIS does not currently compile a PPI for Liberia because this requires that an Economic Census be conducted.</p>
<p><b>Government Finance Statistics:</b> Data reporting to STA for dissemination has lapsed. The last available data, which only covered the budgetary central government, corresponds to 2013. While currently compiled GFS largely aligns to the guidelines of the GFSM 2001/14, gaps remain, on the comprehensiveness of transactions in the statement of operations; and the institutional coverage of data. Not all external flows, on grants and loans, and associated expenditure are comprehensively captured in the statement of operations; and data coverage remains limited to the budgetary central government. Expenditure transactions are currently recorded on commitment basis, while all other transactions in the statement of operations are recorded on cash basis, to a large extent. No adjustment is made to bridge the timing difference of transactions on commitment and cash basis, in statement of operations of the budgetary central government, mainly due to the difficulty to accurately and timely capture cash expenditure. Improvements to data quality will require efforts to improve coordination and data sharing mechanisms between various data producing and data using units. Timely data reporting to STA should resume.</p>
<p><sup>1</sup>Enhanced Data Dissemination Initiative (EDDI) phase 2 funded by the UK Department for International Development.</p>

**Monetary and Financial Statistics (MFS):** Liberia has recently completed the compilation of monetary data based on STA Standardized Report Forms (SRFs), and needs to finalize the implementation of the January 2019 TA recommendations. The implementation of the mission's recommendation and the regular compilation of monetary data based on the SRFs is critical for surveillance.

**Financial sector surveillance:** The CBL submits some supervisory ratios to AFR for surveillance purposes. A TA mission from STA is scheduled to visit the CBL at end-April 2019 to assist the CBL with the preparation of the FSI workbook.

**External sector statistics:** As part of the UK DFID Project, the CBL has been receiving sustained TA missions. The quality of the ESS has been improving gradually, although for surveillance purpose it is still not yet adequate. Balance of payments statistics are compiled quarterly since August 2016 on a *BPM6* basis and have been submitted to STA since start of 2017. In addition, the CBL has recently started compiling preliminary annual International Investment Position (IIP). With a view to further improve data quality, new administratively sourced cross-border flows and positions have been tapped and the CBL has implemented in 2018 an International Transactions Reporting System (ITRS) as well as Direct Investment survey. The TA missions have also helped the compilers to prepare tables with longer time series data for publication in a user-friendly format to better satisfy users' needs.

## II. Data Standards and Quality

Participant in the enhanced General Data Dissemination System (e-GDDS) since October 2005. Metadata for most data categories were updated in November 2013.

No Data ROSC mission has been conducted.

## III. Reporting to STA

The authorities report quarterly balance of payments data, annual IIP for the IFS and BOPSY. Liberia does not submit FSIs to STA for publication on the IMF website and annual government finance statistics submissions for the GFSY have lapsed

<b>Liberia: Table of Common Indicators Required for Surveillance</b>					
	<b>Date of Latest Observation</b>	<b>Date Received</b>	<b>Frequency of Data<sup>7</sup></b>	<b>Frequency of Reporting<sup>7</sup></b>	<b>Frequency of Publication<sup>7</sup></b>
Exchange Rates	2/2018	Feb/2018	D	M	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	1/2018	Feb/2018	M	M	Q
Reserve/Base Money	1/2018	Feb/2018	M	M	Q
Broad Money	1/2018	Feb/2018	M	M	Q
Central Bank Balance Sheet	1/2018	Feb/2018	M	M	Q
Consolidated Balance Sheet of the Banking System	1/2018	Feb/2018	M	M	Q
Interest Rates <sup>2</sup>	1/2018	Feb/2018	M	M	Q
Consumer Price Index	1/2018	Feb/2018	M	M	Q
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Budgetary Central Government	12/2017	02/2018	M	M	Q
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	12/2017	02/2018	M	M	Q
External Current Account Balance	6/2018	9/2018	Q	Q	Q
Exports and Imports of Goods and Services	6/2018	6/2018	Q	Q	Q
GDP/GNP	2017	11/19/2018	A	A	I
Gross External Debt	9/2017	02/2018	M	M	Q
International Investment Position <sup>6</sup>	Q4/2017	6/2018	Q	Q	Q
<p><sup>1</sup>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.</p> <p><sup>2</sup>Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.</p> <p><sup>3</sup>Foreign, domestic bank, and domestic nonbank financing.</p> <p><sup>4</sup>The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.</p> <p><sup>5</sup>Including currency and maturity composition.</p> <p><sup>6</sup>Includes external gross financial asset and liability positions vis-à-vis nonresidents.</p> <p><sup>7</sup>Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).</p>					



# LIBERIA

May 16, 2019

## STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION— DEBT SUSTAINABILITY ANALYSIS

**Text Table 1: Liberia: Joint Bank-Fund Debt Sustainability Analysis**

<b>Risk of external debt distress</b>	<i>Moderate</i>
<b>Overall risk of debt distress</b>	<i>Moderate</i>
<b>Granularity in the risk rating</b>	<i>Limited space to accommodate shocks</i>
<b>Application of judgment</b>	<i>No</i>

Approved by  
**Dominique Desruelle**  
(IMF) and **Marcelo**  
**Estevao (IDA)**

Prepared by the International Monetary Fund and the World Bank.

*The Debt Sustainability Analysis (DSA) suggests that Liberia remains at moderate risk of debt distress with limited space to accommodate shocks. The country's debt carrying capacity remains medium, but the rating has declined from 3.1 to 2.77. The authorities have pursued non-concessional loans, but none has been disbursed yet. The government has instead borrowed U.S. dollars from the Central Bank of Liberia (CBL) to close the financing gap in FY2018. Such new borrowing, as well as the legacy U.S. dollar debt from the civil war time, are both incorporated in the new DSA. The State-owned Enterprises (SOE) guaranteed debt is also incorporated. Liberia would edge closer to high risk of debt distress with a small change in the terms of both domestic and external debt or a failure to adjust primary expenditure to the available revenue envelope over the medium-term.*

## PUBLIC DEBT COVERAGE

**1. The DSA covers central government debt, central government guaranteed debt, and central bank debt contracted on behalf of the government** (Text Table 2).<sup>1</sup> The bulk of State-Owned Enterprise (SOE) debt is guaranteed by the central government and is included in DSA. Government borrowing from the Central Bank of Liberia (CBL) has been included in the current DSA analysis, consisting of \$254.5 million (7.8 percent of GDP) in legacy U.S. debt from the war time and \$65 million (1.5 percent of GDP) in credit from the CBL in the form of bridge loans and advances used to cover the fiscal financing gap of FY2018. In addition, the DSA includes \$65 million in arrears to the construction sector, which took advances from banks to carry out public road projects. The largest debt of SOEs is a World Bank loan to the Liberia Electricity Corporation (LEC) for the rehabilitation of Mt. Coffee hydropower station. Other elements of public sector debt are not included in the analysis because of data constraints.<sup>2</sup>

**Text Table 2: Liberia: Coverage of Public Sector Debt**

Subsectors of the public sector	Sub-sectors covered
1 Central government	X
2 State and local government	
3 Other elements in the general government	
4 o/w. Social security fund	
5 o/w. Extra budgetary funds (EBFs)	
6 Guarantees (to other entities in the public and private sector, including to SOEs)	X
7 Central bank (borrowed on behalf of the government)	X
8 Non-guaranteed SOE debt	

1 The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0	
4 PPP	35 percent of PPP stock	3.5	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)		10.5	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

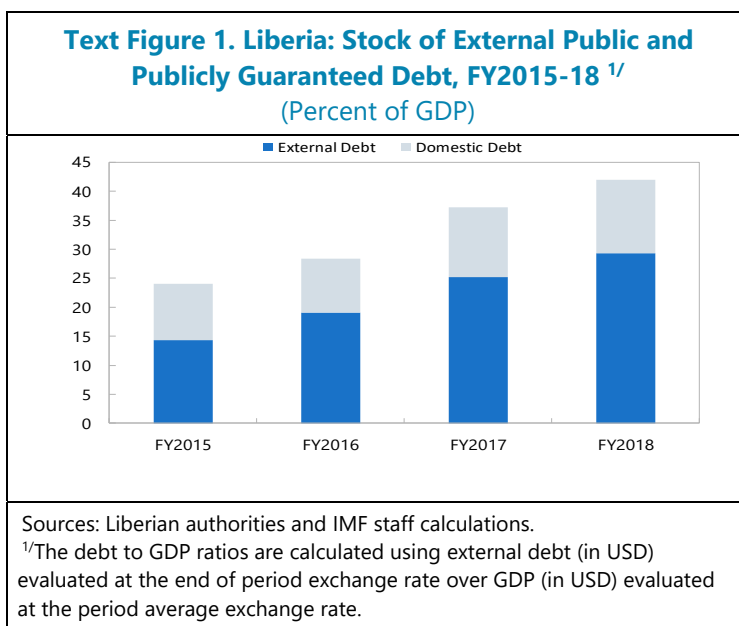
<sup>1</sup>The definition of external and domestic debt uses a residency criterion.

<sup>2</sup>The contingent liabilities shock from the SOE debt is kept at the default value of 2 percent to reflect risks associated with non-guaranteed SOE debt, currently excluded from the analysis due to the data availability constraints. Currently, the SOE Reporting and Coordination Unit (SOERCU) of the MFDP monitors and reports on the performance of 15 out of 39 registered SOEs in Liberia but the reports do not provide any specific information about non-guaranteed SOE debt. The amended PFM Act strengthens requirements for reporting and monitoring of SOE debt, including non-guaranteed. Going forward, the external debt coverage will be expanded as the government plans to include the SOE sector non-guaranteed debt into public sector debt.

## BACKGROUND

**2. This DSA is being conducted in the context of the 2019 Article IV consultation.** The last Low-Income Country DSA (LIC-DSA) was considered by the Executive Board in June 2018 as part of the 2018 Article IV consultation.<sup>3</sup> Liberia does not currently have a Fund-supported program but continues to be subject to the IDA Non-Concessional Borrowing Policy (NCBP) regardless of the risk of debt distress.<sup>4</sup>

**3. A year after taking office, policy uncertainty is besetting President George Weah's efforts to meet the expectations of the Liberian population.** The government launched an ambitious pro-poor agenda aimed primarily at closing the country's infrastructure gap and raising the income level of the poor, but financing remains uncertain. On the macroeconomic front, large policy slippages have emerged, widening macroeconomic imbalances: i) the fiscal policy stance has been loose and coupled with big revenue shortfalls and financing gaps; ii) the monetary policy stance has been passively accommodative; and iii) the CBL has intervened in the foreign exchange market depleting international reserves. As a result, the medium-term outlook is less optimistic than at the time of the 2018 Article IV consultation.



<sup>3</sup>This DSA is prepared jointly by the staff of the IMF and World Bank, in collaboration with the authorities of Liberia. The current DSA follows the revised Debt Sustainability Framework (DSF) for LICs and Guidance Note (2017) in effect as of July 1, 2018. The last joint DSA was prepared for the 2018 Article IV consultation and can be found in IMF Country Report No. 18/172, June 2018.

<sup>4</sup>The NCBP requires a minimum grant element of 35 percent or higher, should a higher minimum be required under a Fund-supported program.

**4. Identifying viable external financing to fulfill the pro-poor agenda has proved challenging.** The authorities' efforts to secure financing from non-traditional donors, mostly on non-concessional terms, have not been successful. In a fast-tracked process that lacked transparency, the government of Liberia (GOL) ratified two separate external loan agreements totaling US\$957.2 million (29 percent of GDP) in May of 2018.<sup>5</sup> More recently, the authorities have indicated that they are in the process of cancelling them. Yet, the authorities remain tolerant to the possibility of contracting large loans on non-concessional terms beyond the limits of Liberia's absorptive capacity. Meanwhile, external grants inflows are on a declining trend—expected to decrease from 16.7 percent of GDP in FY2017 to 13.4 percent of GDP in FY2024—and the authorities' capacity to mobilize domestic revenue remains limited for the size of the need. Therefore, a shrinking revenue envelope prevents the authorities' from effectively delivering the much-needed public services in a manner that is consistent with macroeconomic stability and conducive to long term growth.

**Text Table 3. Liberia: Structure of External Public Debt as of June-2018<sup>1/</sup>**

	USD millions	Percent of Total	Percent of GDP <sup>2/</sup>
<b>Multilateral</b>	<b>805</b>	<b>93.8</b>	<b>27.5</b>
IMF	231	26.9	7.9
World Bank	356	41.5	12.2
AfDB	92	10.7	3.1
EIB	55	6.4	1.9
Other Multilateral	72	8.4	2.5
<b>Bilateral:Non-Paris Club</b>	<b>54</b>	<b>6.2</b>	<b>1.8</b>
China	5	0.6	0.2
Kuwait	15	1.7	0.5
Saudi Arabia	34	3.9	1.1
<b>Total</b>	<b>859</b>	<b>100.0</b>	<b>29.3</b>

Sources: Liberian authorities and IMF staff calculations.  
<sup>1</sup> Debt stock on disbursement base, excluding debt to Taiwan Province of China (85.4 mil) that is not servicing due to the lack of diplomatic relationship.  
<sup>2</sup> The debt to GDP ratios are calculated using external debt (in USD) evaluated at the end of period exchange rate over GDP (in USD) evaluated at the period average exchange rate, to ensure consistency with the DSA template.

**5. Following the completion of HIPC in 2010, debt accumulated rapidly due to scaled-up infrastructure spending and the government's response to a series of adverse shocks.** The total public external debt stock was \$859 million (29.3 percent of GDP)<sup>6</sup> at end-FY2018, comprising mostly of multilateral loans (Text Table 3). The recent uptick in domestic debt in the form of credit from the CBL raises concerns about macroeconomic stability as the Central Bank is absorbing the losses of the lending extended to the GOL. Total public and publicly guaranteed debt at end-FY2018 is estimated at 42 percent of GDP (Text Figure 1).

<sup>5</sup>The agreements were signed between the Government of Liberia and Eton Finance PTE limited for US\$536 million and the EBOMAF company of Burkina Faso for US\$420.81 million. Projects targeted under the financing agreements included the construction of 770 kilometers of asphalt roads, seven local football stadiums, and a vocational training center.

<sup>6</sup>The ratio is calculated using external debt (in USD) evaluated at the end of period exchange rate over GDP (in USD) evaluated at the period average exchange rate.

## UNDERLYING ASSUMPTIONS

6. The key macroeconomic assumptions are in line with the baseline scenario described in the Policy Note. The near- and medium-term outlook is challenging and less optimistic than at the time of the 2018 Article IV consultation. Changes to the underlying assumptions are as following (Text Table 4):

- The **real GDP growth path** has been revised down from 4.7 percent to 0.4 percent in 2019 due to continued policy uncertainty and slowing down of credit growth. Under the baseline scenario the authorities are expected to muddle through initially but face a forced adjustment in year 2022. Growth in the short-to-medium term is supported by agriculture and mining. Real GDP is projected to contract by 1.3 percent in 2022 and 0.5 percent in 2023. Medium-term growth has been revised down from 5.3 percent to 3.7 percent in line with factor accumulation (Annex I in Staff Report). In the long-run, growth is estimated to increase to 4.3 percent by 2028—owing mostly to improvements in total factor productivity and growth of the working-age population—and remaining stable thereafter.
- The **inflation** outlook deteriorated significantly in the second half of 2018. Closely following developments in the foreign exchange markets, average headline inflation increased to 20.4 percent in 2018 (compared to 11.7 estimated previously) and is expected to remain in double digits in the medium-term.
- The **fiscal position** of the central government is set to remain loose. The fiscal deficit widened to 5.5 percent of GDP in FY2018, partially financed by credit from the central bank. An overoptimistic revenue envelope driven by the pressure to address high spending needs means that—in the absence of additional budget support—the authorities will continue to rely on borrowing from the central bank in both U.S. and Liberian dollars to close the financing gap.
- The **current account deficit** estimates for 2019 widened from 22.3 to 23.3 percent of GDP. The trade balance improved modestly in 2018, but it was more than offset by a decline in net transfers following the United Nations Mission in Liberia (UNMIL) withdrawal and a decline in net income. Over the medium term, the current account deficit is expected to remain high during the next few years but then decline in subsequent years in response to the forced adjustment. The external sector assessment shows that Liberia’s external sector position is substantially weaker than implied by fundamentals and desirable policies.

**Text Table 4. Liberia: Underlying DSA Assumptions**

	FY2019	FY2019-24	FY2024-40
	(In million US dollar)	Average growth (In percent)	Average growth (In percent)
<b>Nominal GDP</b>			
June 2018 Board	3442	6.8	7.8
Current	3267	1.1	6.9
<b>Exports of Goods and Service</b>			
June 2018 Board	727	5.0	6.1
Current	777	4.2	5.8

Sources: Liberian authorities; and IMF staff projections.

- The CBL's foreign **reserves** continued to decline. Staff estimate that the CBL will use around US\$80 million of its reserves to finance fiscal deficits, its operations, and interventions in the foreign exchange market in 2019. They are expected to decline in the medium-term to below 1 months of imports.

## 7. The assumptions for the financing mix and borrowing terms are as follows:

- **External borrowing.** The DSA assumes that public external debt would increase by about \$1.24 billion in the medium-term. Even if the two external loans ratified in May 2018 (for US\$957.5 million) were to be officially canceled, the baseline assumes large non-concessional loans. The average grant element of new borrowing is estimated to decline from 43.6 percent FY2019 to 31.2 percent in FY2022, and subsequently increasing as the authorities increase engagement with and borrow more from traditional donors. This is in contrast with an average grant element of the new borrowing of 45 percent assumed at the time of the 2018 Article IV consultation.
- **Domestic borrowing.** The baseline scenario assumes central bank credit during 2019–21 at a negative real interest rate to fulfil central government's budget needs (e.g., the government currently pays -2.2 percent in real terms on the legacy debt of \$250 million and zero nominal interest rate on the credit extended in 2018). The baseline also assumes that the financing gap will be filled with additional central bank financing. As the central government faces high spending pressure, amortization of CBL credit for budget support will be deferred to the long-term.

## REALISM OF THE BASELINE ASSUMPTIONS

### 8. Drivers of the debt dynamics seem to reflect the past well (Figure 3).

- The DSF shows the evolution of the past and projections of external and public debt to GDP ratios for the current DSA, the previous year DSA (the 2018 Article IV DSA), and the DSA from 5 years past. The current DSA shows a significantly different evolution from the past, which reflects the latest revisions to the medium-term outlook and policy direction of the authorities. The downward revisions to real GDP growth explain most of the increase in the ratio of external-debt-to GDP in coming years. Some additional financing on non-concessional terms was added relative to the 2018 Article IV DSA, as the authorities have continued to seek financing from non-traditional donors, mostly on non-concessional terms, though non-financing has been disbursed yet. The inclusion of CBL credit in the current DSA and the assumption that the financing gap will be filled with additional CBL credit explain the differences in domestic debt dynamics outlined in the previous DSA.
- A high contribution of unexpected non-interest current account deficits to past debt accumulation and an equally large unexpected residual to the past debt accumulation in the opposite direction are observed (Figure 3). These debt dynamics are plausible since residual financing (i.e., net private financing under other investment flows in the Balance of

Payments, Table 2), which is enabling the large current account deficit, includes current transfers (remittances) that are not captured by the official statistics. In other words, the residual financing shown in the realism tool is unlikely to have been debt creating flows. Indeed, the Other Depository Corporations (ODCs) survey does not show such an accumulation.

- The significant adverse shocks the country has gone through (the Ebola epidemic and the commodity price shock) are well captured in the chart showing unexpected changes in debt accumulation in the past 5 years. The unexpected increase in debt was about 12 percent of GDP, which is above the median of the countries producing LIC DSA and is towards the upper end of the interquartile range (25 percent–75 percent). As expected in countries that go through major macroeconomic shocks, drivers of this unexpected debt accumulation are equally shared among three factors: unexpected increases in primary fiscal deficits, an unexpected decline in growth, and an unexpected depreciation of the real exchange rate.

**9. The widening of the primary fiscal deficit in the next three years is within the range of countries producing the LIC DSA.**

- The second DSF realism tool assesses the realism of the fiscal projection. The fiscal primary deficit is projected to increase by about 1.0 percentage point of GDP in the next three years. This is just below the mode.

**10. The consistency of the fiscal deficit and growth projections for 2019 and 2020 is evident in Figure 6 for a couple of reasons.**

- The growth path shown in the figure captures overall growth, but the impact of fiscal adjustment/slippage is assumed to impact the non-mining sector growth. The fiscal multiplier used is 0.67.
- The fiscal widening in 2019 is projected to have a small stimulus impact relative to the adverse impact of the terms-of-trade shocks and the sharp contraction of imports of key commodities (fuel and rice) (Figure 3).

**11. The growth and fiscal adjustment tool (Figure 5) shows that growth projections for the 2018 Article IV DSA were on the optimistic side, whereas the downward revision to growth reflected in the current DSA is in line with past experience.**

## COUNTRY CLASSIFICATION AND MODEL SIGNAL

**12. Liberia's debt carrying capacity is classified as medium, based on a Composite Indicator (CI) of 2.77** (Text Table 4).<sup>7</sup> The country's capacity was assessed at the same level in the

<sup>7</sup>The CI captures the impact of the different factors through a weighted average of the World Bank's 2017 Country Policy and Institutional Assessment (CPIA) score, the country's real GDP growth, remittances, international reserves, and world growth. A country's debt-carrying capacity would be assessed as weak if its CI value is below 2.69, medium if it lies between 2.69 and 3.05, and strong if it is above 3.05.

previous DSA (Text Table 5). However, subsequent revisions to the deteriorating macroeconomic outlook could affect the CI in the next 1–2 years, significantly reducing the borrowing space. In addition, Liberia was recently downgraded to “weak quality of debt monitoring” in line with the country’s debt recording capacity.

**13. Standard scenarios stress test and a contingent liability test are conducted and discussed below.**

Text Table 4. Liberia: Composite Index				
Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.103	1.19	43%
Real growth rate (in percent)	2.719	3.358	0.09	3%
Import coverage of reserves (in percent)	4.052	21.268	0.86	31%
Import coverage of reserves <sup>^2</sup> (in percent)	-3.990	4.523	-0.18	-7%
Remittances (in percent)	2.022	15.020	0.30	11%
World economic growth (in percent)	13.520	3.660	0.49	18%
CI Score			2.77	100%
CI rating			Medium	

Text Table 5. Liberia: Debt Carrying Capacity and Thresholds		
Final Classification	Classification based on current vintage	Classification based on the previous LIC DSF
Medium	Medium 2.8	Medium 3.1
EXTERNAL debt burden thresholds	Current LIC DSF	Previous LIC DSF
PV of debt in % of Exports	180	100
GDP	40	30
Debt service in % of Exports	15	15
Revenue	18	18
TOTAL public debt benchmark	Current LIC DSF	Previous LIC DSF
PV of total public debt in percent of GDP	55	38

## EXTERNAL DSA

**14. Liberia remains at moderate risk of external debt distress.** The PV of debt-to-GDP and the PV of debt-to-export ratios are set to remain below their policy dependent threshold, with the former peaking at 34.6 percent in 2027 and the later remaining below 150 percent in the medium-to long-term (Figure 1). The debt-service to revenue ratio will reach levels just below the threshold of 18 percent in 2023 and 2024 potentially crowding out much needed spending and running the risk

of a buildup of arrears. The debt-service to exports ratio remains below the threshold, peaking in 2023 and 2024 when the economy is forced to adjust. The evolution of the probability of debt distress over time, shows that the probability of debt distress increases substantially if there is a shock to exports or depreciation (Figure 6).

**15. Standard stress tests show that a further deterioration of the macroeconomic outlook will lead to breaches of the policy dependent thresholds** (Table 3). All standard stress tests, namely, a shock of one-standard deviation in the primary balance, nominal export growth, other non-debt creating flows, and a one-time depreciation of the size needed to close the real exchange overvaluation (which is the most extreme shock) will all result in breaching the thresholds on the stock of debt (the PV of debt-to-GDP ratio and the PV of debt-to-exports ratio). A one-standard deviation shock to real GDP growth will not breach the threshold on the stock of debt, but it will breach the threshold on debt services.

## PUBLIC DSA

**16. Public sector debt indicators also show that Liberia remains at moderate risk of public debt distress.** The PV of public debt-to GDP ratio is projected to increase from an estimate of 35.3 percent in FY2019 to 46.6 percent in FY2023 and continue on an upward trend thereafter (Table 2 and Figure 2). The PV of debt-to-revenue ratio will peak at 168.5 percent in FY2025 and decline slowly to 156.9 percent in the long-term, while the debt-service-to-revenue ratio will peak at 16.8 percent in FY2023 and decline in subsequent years.

**17. Under standard sensitivity analysis, the PV of Debt-to-GDP breaches the relevant threshold.** Based on standard stress tests, a deterioration of real GDP, the primary balance, exports, and other flows results in a breach of the threshold on the PV of debt-to-GDP ratio (Table 4). Moreover, the debt service-to-revenue ratio reaches close to 20 percent (or above 20 percent in some cases). Additionally, the contingent liability stress test is estimated to lead to a one-off increase in the debt-to-GDP ratio of 10.5 percent, capturing the combined shock of SOE's external debt default, PPPs' distress, and financial market vulnerabilities that are not included in the covered data.

**18. An alternative scenario in which an increase in interest payments does not crowd out primary expenditure is also considered.** A case in which debt service increases because of a rise in the interest rate or additional borrowing that must be serviced, but the GOL does not adjust primary expenditure accordingly is analyzed. Under this scenario, Liberia will eventually breach the PV of debt-to-GDP ratio if additional revenue is not mobilized and the GOL is forced to borrow to meet its increased debt service obligations.

## RISK RATING AND VULNERABILITIES

**19. Liberia's borrowing space is limited, and careful consideration to the terms of new external borrowing and the country's absorptive capacity is needed** (Figure 4). The authorities' ambitious infrastructure program to rehabilitate the national road network will undoubtedly raise

the PV of debt relative to its foreign exchange earning capacity. The projected disbursement path for the period of FY2019–24 is beyond what the authorities have been able to absorb in the past but reflects their ambition to secure large infrastructure loans that promise to be disbursed in the short-term. Yet, under this scenario, the limited space to absorb shocks is almost non-existent for debt-service-to-revenue ratio. Moreover, borrowing beyond capacity will not generate enough GDP growth to compensate for the increase in nominal debt levels. Indeed, the effect of the rehabilitation of roads on aggregate demand from the financing options under consideration is expected to be limited, as only a small part of the total cost of rehabilitation of the roads would be likely to be sourced locally.

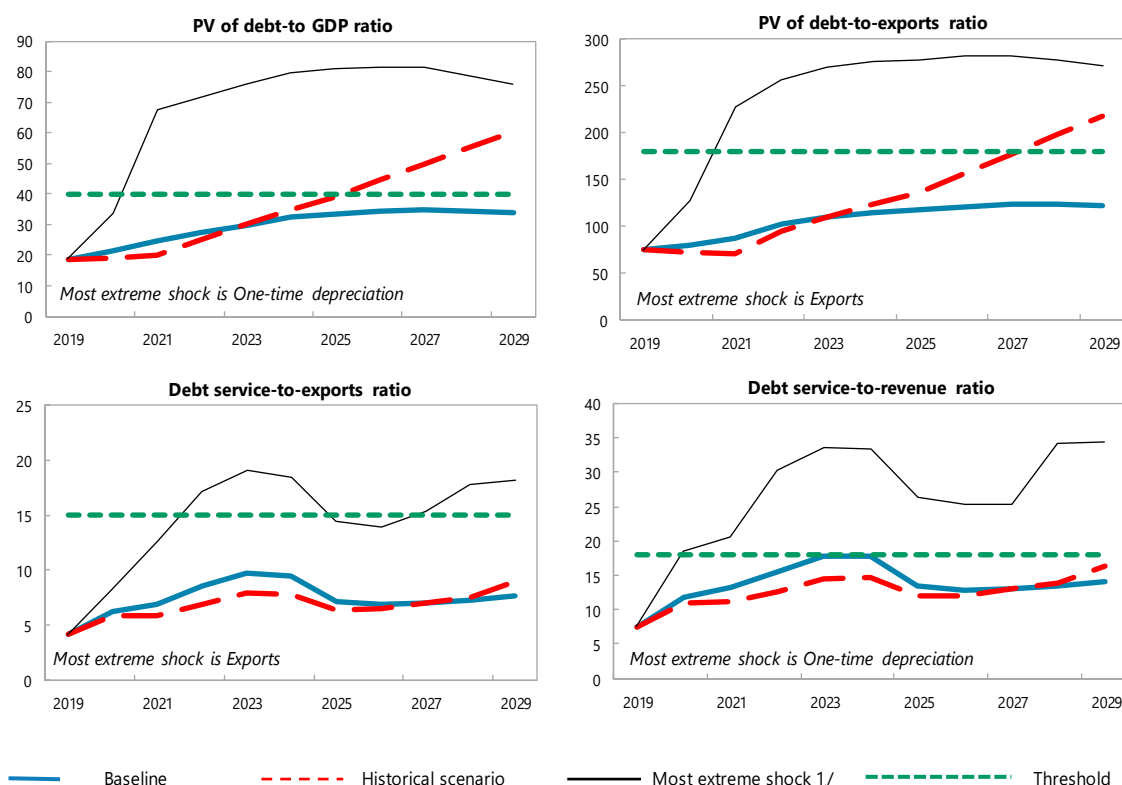
**20. Moreover, while most of the domestic debt is intra-government borrowing, fiscal adjustment is warranted to ensure macroeconomic stability and solvency of the Central Bank.** Currently, the CBL is absorbing the losses of the credit it is providing to the GOL and no repayment plan has been agreed, while the resources of the Central Bank are being depleted. A repayment profile of domestic debt with a positive real interest rate will put additional pressure on spending needs, crowding out primary expenditure or leading to a further increase of the fiscal imbalance.

**21. Risks to the outlook are tilted to the downside.** On the upside, an increase in commodity prices, an increase in iron ore production, and an increase in donor grants could ease some of the macroeconomic pressures. Moreover, if the non-concessional borrowing planned in the baseline scenario beyond absorptive capacity does not materialize debt will remain at more sustainable levels. However, on the downside, a drop-in commodity prices, or a failure to mobilize fiscal resources to close the financing gap could lead to a further deterioration of macroeconomic conditions and increase the risk of debt distress.

## AUTHORITIES' VIEWS

**22. The authorities broadly agreed with the importance of maintaining debt sustainability in the medium term.** The authorities reiterated their preference for concessional financing as it recognizes that borrowing space is limited and sensitive to the terms of new loans; and noted that they are in the process of cancelling the non-concessional ETON and EBOMAF loans. However, given its stated commitment to fulfill its Pro-Poor Agenda, if assistance from traditional donors is delayed, it remains tolerant to the possibility of contracting non-concessional loans and securing financing from non-traditional donors. The authorities emphasized the pressing need to move forward with their development agenda, and expressed the hope that the international community would provide the current administration with assistance in meeting these needs through provision of budget support, project grants, and financing for infrastructure projects.

**Figure 1. Liberia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2019–29**



Customization of Default Settings		
	Size	Interactions
<b>Tailored Tests</b>		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices <sup>2/</sup>	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

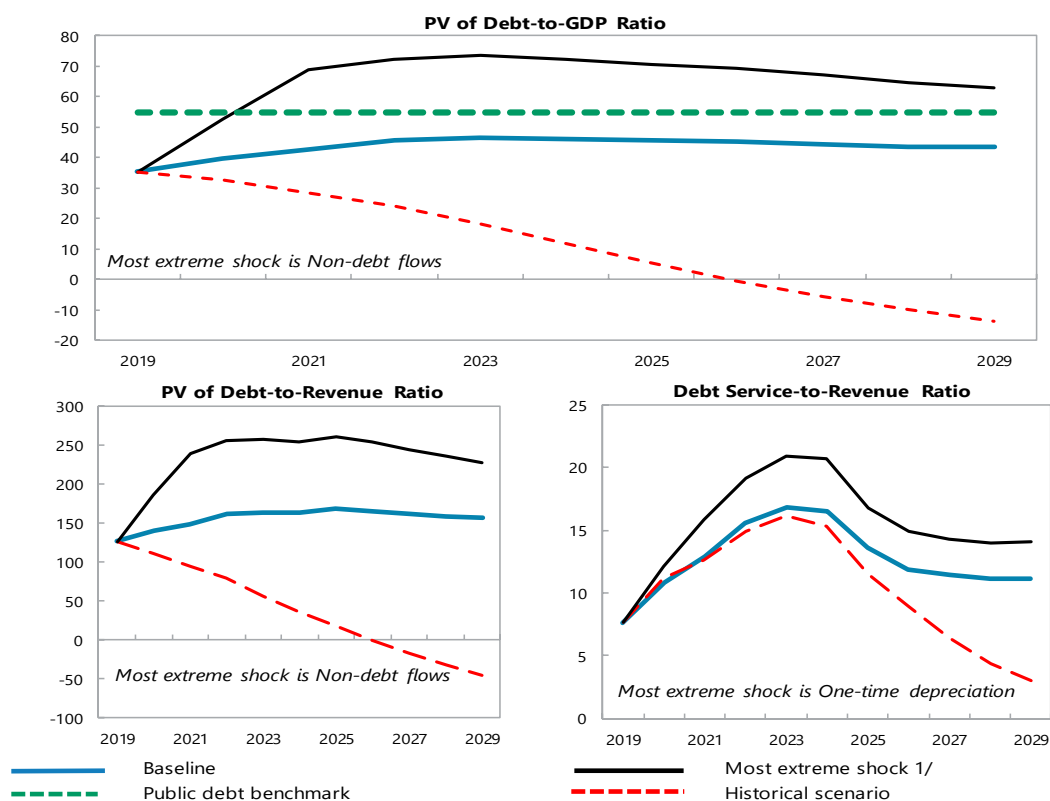
Borrowing Assumptions for Stress Tests*		
	Default	User defined
<b>Shares of marginal debt</b>		
External PPG MLT debt	100%	
<b>Terms of marginal debt</b>		
Avg. nominal interest rate on new borrowing in USD	2.1%	2.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	6	6

\* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

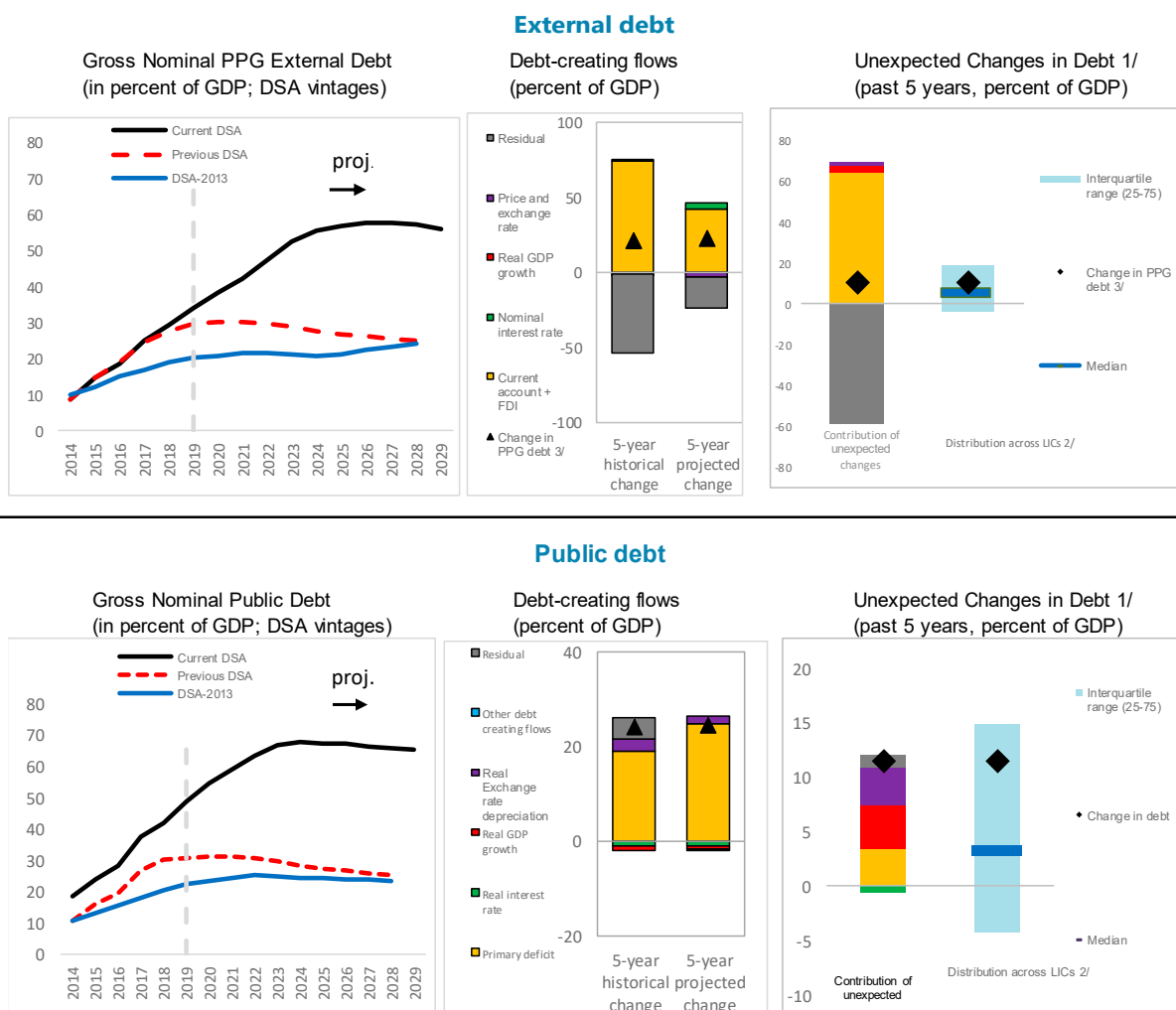
**Figure 2. Liberia: Indicators of Public Debt Under Alternative Scenarios, 2019–29**

Borrowing Assumptions for Stress Tests*	Default	User defined
<b>Shares of marginal debt</b>		
External PPG medium and long-term	82%	82%
Domestic medium and long-term	18%	18%
Domestic short-term	0%	0%
<b>Terms of marginal debt</b>		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.1%	2.1%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	-2.2%	-2.2%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

\* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

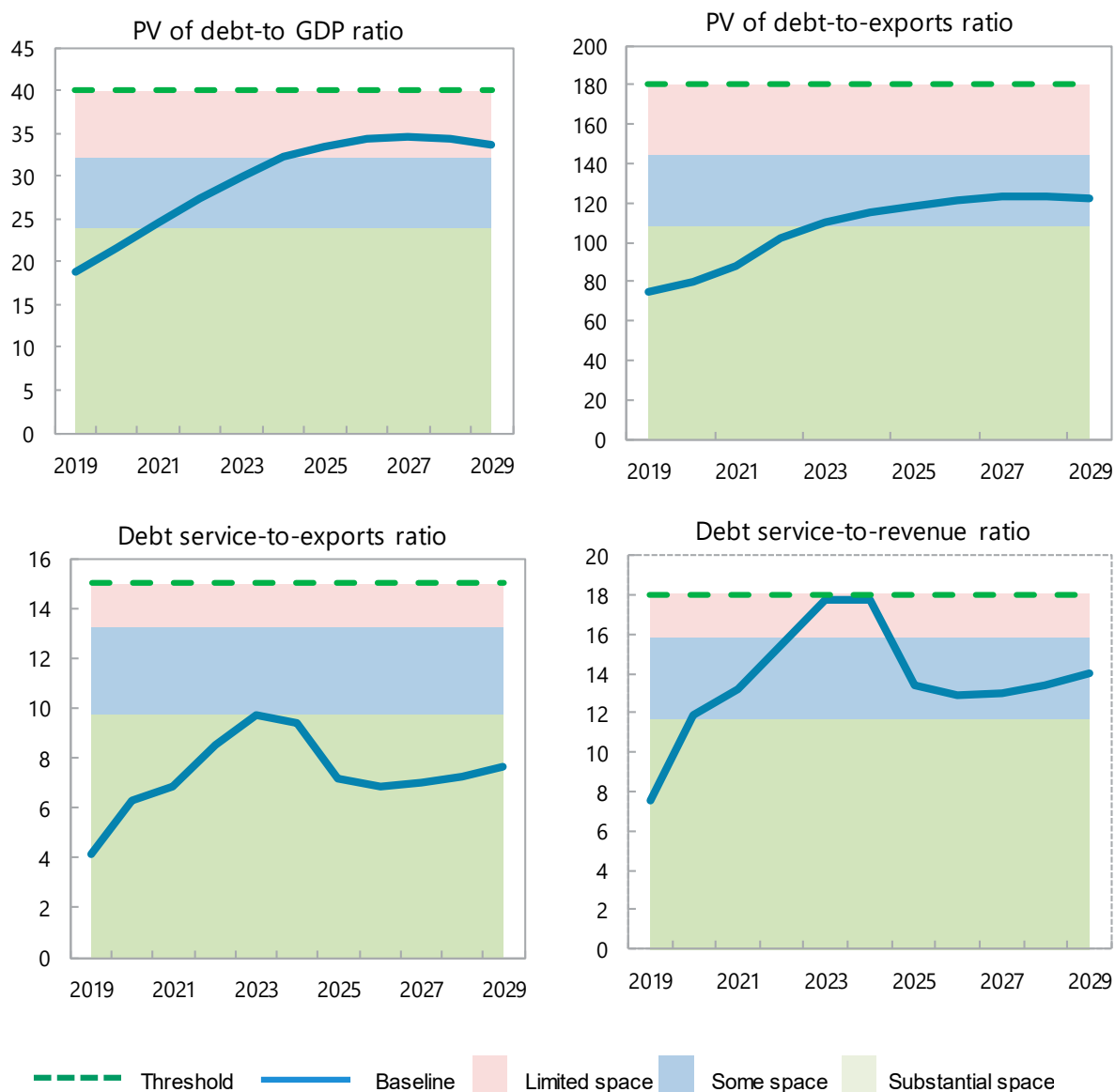
1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

**Figure 3. Liberia: Drivers of Debt Dynamics – Baseline Scenario**

1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

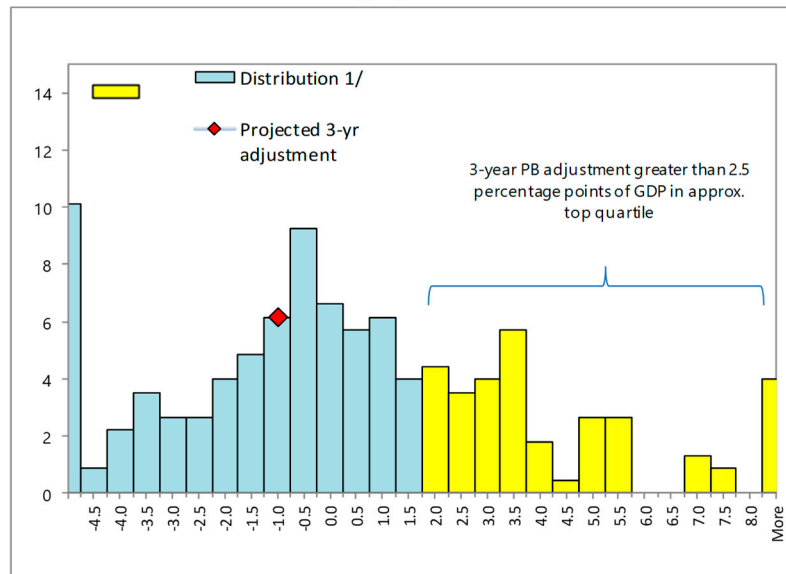
**Figure 4. Liberia: Qualification of the Moderate Category, 2019–29<sup>1/</sup>**

Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

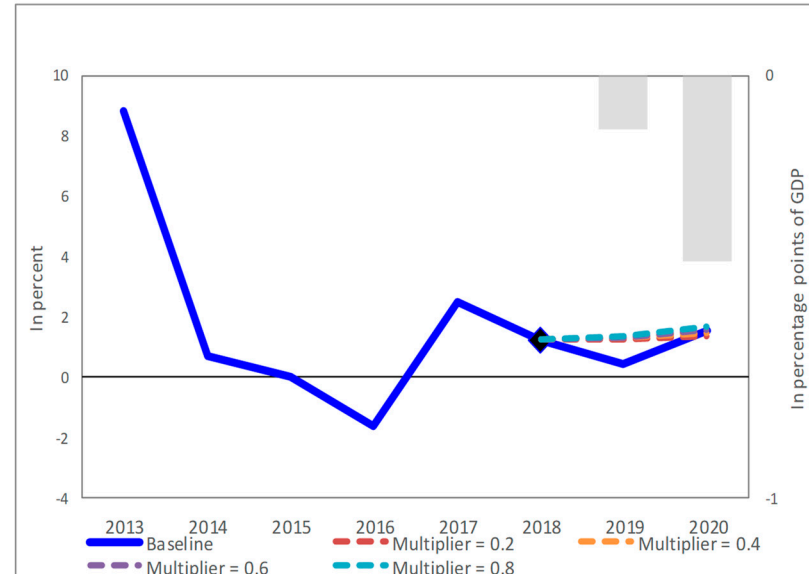
Figure 5. Liberia: Realism Tools

### 3-Year Adjustment in Primary Balance (Percentage points of GDP)



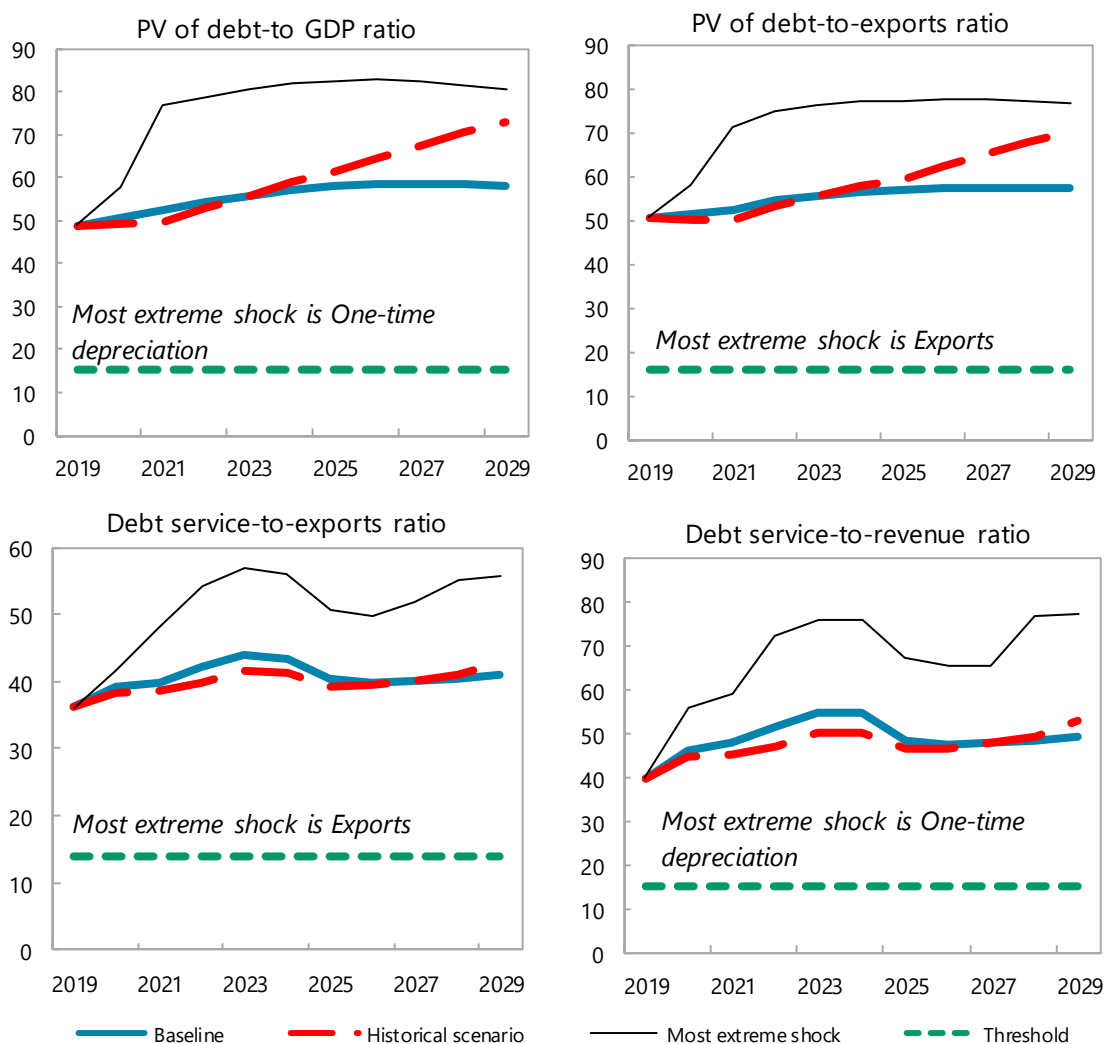
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

### Fiscal Adjustment and Possible Growth Paths<sup>1/</sup>



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

**Figure 6. Liberia: Probability of Debt Distress of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 1/**



Sources: Country authorities; and staff estimates and projections.

1/ The probability approach focuses on the evolution of the probability of debt distress over time, rather than on the evolution of debt burden indicators.

**Table 1. Liberia: External Debt Sustainability Framework, Baseline Scenario, 2016–39**  
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/ Historical Projections	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
<b>External debt (nominal) 1/</b>	18.8	25.1	29.3	34.1	38.6	42.2	47.5	52.5	55.4	56.0	39.2	12.4	50.5
<i>of which: public and publicly guaranteed (PPG)</i>	18.8	25.1	29.3	34.1	38.6	42.2	47.5	52.5	55.4	56.0	39.2	12.4	50.5
<b>Change in external debt</b>	4.1	6.3	4.1	4.8	4.5	3.6	5.3	5.0	2.9	-1.1	-1.5		
<b>Identified net debt-creating flows</b>	11.0	16.1	14.4	12.5	10.6	11.0	5.6	6.4	3.6	-1.9	-4.4	9.7	4.6
<b>Non-interest current account deficit</b>	18.7	23.5	23.0	22.7	22.3	23.9	15.8	15.8	15.6	10.2	5.6	21.6	16.3
Deficit in balance of goods and services	-97.4	-82.4	-76.1	-75.2	-77.5	-80.7	-71.3	-72.6	-75.1	-71.3	-60.8	-112.8	-74.6
Exports	23.9	22.7	23.8	25.1	26.9	28.0	26.8	27.1	28.0	27.6	25.0		
Imports	-73.5	-59.7	-52.3	-50.1	-50.7	-52.6	-44.5	-45.5	-47.1	-43.7	-35.8		
Net current transfers (negative = inflow)	-37.2	-22.7	-18.8	-18.3	-18.5	-18.5	-18.4	-18.4	-18.1	-15.4	-10.5	-39.9	-17.5
<i>of which: official</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	153.4	128.6	118.0	116.2	118.4	123.1	105.5	106.8	108.8	96.9	76.9	174.3	108.4
<b>Net FDI (negative = inflow)</b>	-7.2	-7.5	-8.8	-10.6	-12.0	-13.1	-11.7	-11.1	-11.7	-10.9	-8.9	-12.5	-11.6
<b>Endogenous debt dynamics 2/</b>	-0.4	0.1	0.1	0.3	0.3	0.2	1.5	1.7	-0.3	-1.2	-1.1		
Contribution from nominal interest rate	0.1	0.2	0.3	0.5	0.8	0.6	1.0	1.5	1.6	1.1	0.5		
Contribution from real GDP growth	0.2	-0.5	-0.3	-0.1	-0.5	-0.5	0.5	0.2	-1.9	-2.3	-1.7		
Contribution from price and exchange rate changes	-0.8	0.4	0.1	...	...	...	...	...	...	...	...	-6.8	-2.2
<b>Residual 3/</b>	-6.9	-9.8	-10.2	-7.7	-6.1	-7.4	-0.3	-1.4	-0.7	0.8	2.9		
<i>of which: exceptional financing</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Sustainability indicators</b>													
<b>PV of PPG external debt-to-GDP ratio</b>	...	...	16.2	18.7	21.5	24.6	27.3	29.9	32.3	33.7	24.7		
<b>PV of PPG external debt-to-exports ratio</b>	...	...	68.3	74.7	80.0	87.8	102.1	110.3	115.2	122.1	98.6		
<b>PPG debt service-to-exports ratio</b>	0.7	1.3	2.8	4.1	6.3	6.8	8.5	9.7	9.4	7.6	9.3		
<b>PPG debt service-to-revenue ratio</b>	1.2	2.1	5.1	7.5	11.9	13.2	15.6	17.7	17.7	14.0	15.4		
Gross external financing need (Million of U.S. dollars)	375.8	530.8	487.5	427.4	386.6	414.0	213.2	255.1	235.2	73.4	-92.9		
<b>Key macroeconomic assumptions</b>													
Real GDP growth (in percent)	-1.6	2.5	1.2	0.4	1.6	1.3	-1.3	-0.5	3.7	4.3	4.3	3.9	2.4
GDP deflator in US dollar terms (change in percent)	5.8	-1.9	-0.5	-1.4	-2.0	-0.5	4.7	4.0	0.2	2.8	2.1	3.8	1.6
Effective interest rate (percent) 4/	0.9	0.9	1.2	1.6	2.3	1.7	2.5	3.2	3.2	2.0	1.4	1.1	2.4
Growth of exports of G&S (US dollar terms, in percent)	-5.4	-4.6	5.7	4.3	6.6	5.2	-1.3	4.7	7.6	6.2	4.3	4.5	5.4
Growth of imports of G&S (US dollar terms, in percent)	-15.2	-18.3	-11.8	-5.1	0.6	4.6	-12.5	5.8	7.6	5.2	5.0	-0.5	2.5
Grant element of new public sector borrowing (in percent)	...	...	...	43.6	34.3	33.0	31.2	35.1	36.5	46.7	32.7	...	39.1
Government revenues (excluding grants, in percent of GDP)	14.0	14.3	13.0	13.7	14.1	14.5	14.7	14.8	14.9	15.1	15.1	14.7	14.8
Aid flows (in Million of US dollars) 5/	736.6	663.4	549.7	556.4	566.4	584.2	589.4	653.0	671.0	772.5	1416.1		
<i>of which: Grants</i>	623.6	541.6	425.5	461.3	457.9	460.1	453.9	478.6	482.7	627.8	1266.4		
<i>of which: Concessional loans</i>	113.0	121.8	124.2	95.1	108.6	124.1	135.5	174.5	188.3	144.8	149.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	16.2	16.0	16.2	15.6	16.3	16.1	14.4	13.7	...	15.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	86.5	82.4	79.9	77.5	77.8	77.6	87.0	87.8	...	82.0
Nominal GDP (Million of US dollars)	3,226	3,244	3,267	3,235	3,219	3,241	3,352	3,468	3,606	5,010	9,913		
Nominal dollar GDP growth	4.0	0.6	0.7	-1.0	-0.5	0.7	3.4	3.5	4.0	7.2	6.6	7.9	4.0
<b>Memorandum items:</b>													
PV of external debt 7/	...	...	16.2	18.7	21.5	24.6	27.3	29.9	32.3	33.7	24.7		
In percent of exports	...	...	68.3	74.7	80.0	87.8	102.1	110.3	115.2	122.1	98.6		
Total external debt service-to-exports ratio	0.7	1.3	2.8	4.1	6.3	6.8	8.5	9.7	9.4	7.6	9.3		
PV of PPG external debt (in Million of US dollars)	...	...	530.4	605.3	691.7	797.9	915.4	1035.5	1164.1	1690.3	2446.6		
(Pvt-Pvt-1)/GDP-1 (in percent)	...	...	...	2.3	2.7	3.3	3.6	3.6	3.7	1.9	0.8		
Non-interest current account deficit that stabilizes debt ratio	14.6	17.2	18.9	17.9	17.8	20.3	10.4	10.8	12.7	11.3	7.1		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - p(1+g) + \epsilon\alpha(1+r)]/(1+g+p+gp)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate;  $p$  = growth rate of GDP deflator in U.S. dollar terms;  $\epsilon$  = nominal appreciation of the local currency, and  $\alpha$  = share of local currency-denominated external debt in total external debt.

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

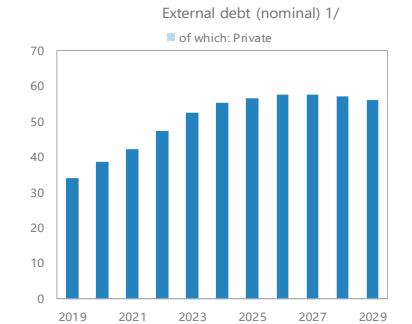
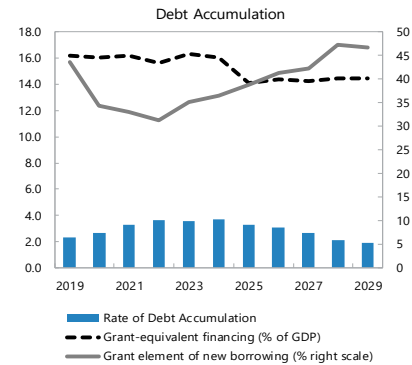
5/ Defined as grants, concessional loans, and debt relief.

6/ 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).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No



**Table 2. Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–39**  
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/ of which: external debt	28.1 18.8	37.4 25.1	42.0 29.3	48.5 34.1	54.4 38.6	58.7 42.2	63.3 47.5	66.6 52.5	67.6 55.4	65.1 56.0	75.3 39.2	24.2 12.4	62.8 50.5
Change in public sector debt	4.1	9.3	4.6	6.5	5.9	4.3	4.6	3.3	1.0	-0.6	2.3		
Identified debt-creating flows	2.9	5.7	5.3	6.3	6.0	4.3	4.7	3.5	1.2	-0.8	2.3	-5.2	2.1
Primary deficit	2.4	4.5	4.9	5.1	5.5	5.8	4.4	4.1	4.0	2.6	5.7	-6.4	3.8
Revenue and grants	33.3	31.0	26.0	28.0	28.4	28.7	28.2	28.6	28.3	27.6	27.9	23.2	27.9
of which: grants	19.3	16.7	13.0	14.3	14.2	14.2	13.5	13.8	13.4	12.5	12.8		
Primary (noninterest) expenditure	35.7	35.5	30.9	33.0	33.9	34.5	32.7	32.7	32.2	30.2	33.6	16.8	31.7
Automatic debt dynamics	0.5	1.2	0.4	1.3	0.5	-1.5	0.3	-0.6	-2.8	-3.4	-3.4		
Contribution from interest rate/growth differential	0.3	-0.8	-1.0	-0.4	-0.7	-1.1	0.3	0.3	-1.9	-2.7	-3.4		
of which: contribution from average real interest rate	-0.1	-0.2	-0.6	-0.2	0.0	-0.5	-0.4	0.0	0.5	0.0	-0.3		
of which: contribution from real GDP growth	0.4	-0.7	-0.5	-0.2	-0.7	-0.7	0.8	0.3	-2.4	-2.7	-3.0		
Contribution from real exchange rate depreciation	0.3	2.1	1.4	...	...	...	...	...	...	...	...		
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	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 contingent liabilities (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		
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 debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	1.1	3.6	-0.7	1.8	1.2	-0.4	-0.2	-1.2	-1.1	-0.5	0.0	7.8	-0.2
<b>Sustainability indicators</b>													
PV of public debt-to-GDP ratio 2/	...	...	30.8	35.3	39.6	42.8	45.6	46.6	46.2	43.4	61.2		
PV of public debt-to-revenue and grants ratio	...	...	118.5	126.3	139.5	149.3	161.6	163.1	163.3	156.9	219.4		
Debt service-to-revenue and grants ratio 3/	1.6	1.4	3.8	7.7	10.8	12.9	15.5	16.8	16.5	11.2	18.8		
Gross financing need 4/	2.9	4.9	5.9	7.2	8.6	9.5	8.8	8.9	8.6	5.7	10.9		
<b>Key macroeconomic and fiscal assumptions</b>													
Real GDP growth (in percent)	-1.6	2.5	1.2	0.4	1.6	1.3	-1.3	-0.5	3.7	4.3	4.3	3.9	2.4
Average nominal interest rate on external debt (in percent)	0.9	0.9	1.3	1.7	2.6	1.9	2.7	3.5	3.4	2.0	1.4	1.1	2.5
Average real interest rate on domestic debt (in percent)	-9.0	-9.6	-15.9	-15.4	-11.3	-6.7	-9.5	-10.9	-3.9	0.0	-0.3	-9.1	-6.0
Real exchange rate depreciation (in percent, + indicates depreciation)	1.1	7.6	3.9	...	...	...	...	...	...	...	...	-0.8	...
Inflation rate (GDP deflator, in percent)	11.7	12.6	21.9	24.5	22.5	17.9	23.0	24.8	15.6	7.0	5.3	11.4	16.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-3.0	1.8	-11.8	7.3	4.0	3.2	-6.6	-0.3	2.2	5.5	5.4	2.3	2.2
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.7	-4.8	0.4	-1.4	-0.4	1.5	-0.2	0.8	3.0	3.2	3.4	-2.0	1.7
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

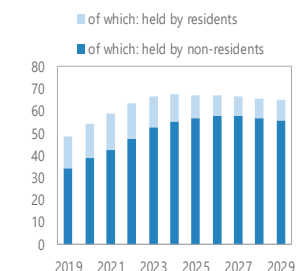
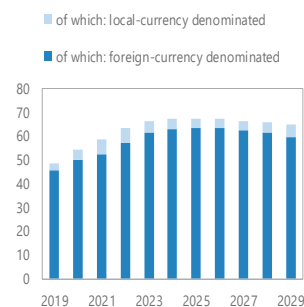
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (/-): a primary surplus, which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/



**Table 3. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–29**  
(Percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	19	21	25	27	30	32	33	34	35	34	34
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	19	19	20	25	30	35	39	44	50	55	60
B. Bound Tests											
B1. Real GDP growth	19	23	28	31	34	37	38	39	39	39	38
B2. Primary balance	19	28	37	40	43	46	47	48	47	47	46
B3. Exports	19	27	40	43	46	48	49	50	50	48	47
B4. Other flows 3/	19	33	49	52	54	57	58	58	57	55	53
B5. Depreciation	19	33	68	72	76	80	81	82	81	79	76
B6. Combination of B1-B5	19	32	49	52	55	57	58	59	58	56	54
C. Tailored Tests											
C1. Combined contingent liabilities	19	27	31	34	36	39	40	41	41	40	40
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	75	80	88	102	110	115	118	121	123	123	122
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	75	72	70	94	111	124	137	157	177	198	218
B. Bound Tests											
B1. Real GDP growth	75	80	88	102	110	115	118	121	123	123	122
B2. Primary balance	75	103	132	150	160	164	165	168	169	167	165
B3. Exports	75	128	228	257	271	276	278	283	283	278	272
B4. Other flows 3/	75	125	175	194	201	203	203	205	203	197	191
B5. Depreciation	75	80	155	173	180	183	183	185	186	182	177
B6. Combination of B1-B5	75	131	161	235	245	248	248	251	249	243	236
C. Tailored Tests											
C1. Combined contingent liabilities	75	102	110	126	134	139	141	144	145	145	144
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	4	6	7	9	10	9	7	7	7	7	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	4	6	6	7	8	8	6	6	7	8	9
B. Bound Tests											
B1. Real GDP growth	4	6	7	9	10	9	7	7	7	7	8
B2. Primary balance	4	6	7	10	11	11	8	8	9	10	11
B3. Exports	4	8	13	17	19	18	14	14	15	18	18
B4. Other flows 3/	4	6	8	11	12	12	10	9	11	13	13
B5. Depreciation	4	6	7	11	12	11	9	9	9	12	12
B6. Combination of B1-B5	4	7	10	14	16	15	12	12	14	16	16
C. Tailored Tests											
C1. Combined contingent liabilities	4	6	7	9	10	10	8	7	8	8	8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	8	12	13	16	18	18	13	13	13	13	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	8	11	11	13	15	15	12	12	13	14	16
B. Bound Tests											
B1. Real GDP growth	8	13	15	18	20	20	15	15	15	15	16
B2. Primary balance	8	12	15	18	20	20	16	15	17	19	20
B3. Exports	8	12	15	19	22	22	17	16	18	20	21
B4. Other flows 3/	8	12	16	21	23	22	18	17	21	24	24
B5. Depreciation	8	19	21	30	33	33	26	25	25	34	34
B6. Combination of B1-B5	8	12	16	21	24	23	19	18	21	25	25
C. Tailored Tests											
C1. Combined contingent liabilities	8	12	14	17	19	19	15	14	14	14	15
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

**Table 4. Liberia: Sensitivity Analysis for Key Indicators of Public Debt, 2019–29**  
(Percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>PV of Debt-to-GDP Ratio</b>											
<b>Baseline</b>	35	40	43	46	47	46	46	45	44	42	41
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2019-2029 2/	35	33	28	24	18	12	5	0	-6	-11	-15
<b>B. Bound Tests</b>											
B1. Real GDP growth	35	41	48	51	53	54	55	<b>55</b>	<b>55</b>	55	55
B2. Primary balance	35	45	<b>56</b>	<b>59</b>	<b>59</b>	<b>59</b>	<b>58</b>	<b>57</b>	<b>55</b>	54	52
B3. Exports	35	44	<b>56</b>	<b>59</b>	<b>60</b>	<b>60</b>	<b>59</b>	<b>57</b>	<b>55</b>	53	51
B4. Other flows 3/	35	53	<b>69</b>	<b>72</b>	<b>74</b>	<b>72</b>	<b>71</b>	<b>69</b>	<b>67</b>	<b>63</b>	<b>60</b>
B5. Depreciation	35	44	45	45	44	42	41	40	38	36	34
B6. Combination of B1-B5	35	42	45	41	42	42	41	41	40	39	38
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	35	45	48	50	51	51	50	49	48	47	45
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Public debt benchmark</b>	55	55	55	55	55	55	55	55	55	55	55
<b>PV of Debt-to-Revenue Ratio</b>											
<b>Baseline</b>	126	140	149	162	163	163	170	166	160	154	148
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2019-2029 2/	126	112	94	79	57	36	18	(1)	(19)	(35)	(49)
<b>B. Bound Tests</b>											
B1. Real GDP growth	126	139	157	172	176	181	193	194	192	190	188
B2. Primary balance	126	160	195	208	208	208	215	210	203	196	189
B3. Exports	126	157	196	210	211	211	218	212	204	194	185
B4. Other flows 3/	126	186	240	256	257	255	264	256	244	231	219
B5. Depreciation	126	165	165	169	164	158	160	154	145	137	128
B6. Combination of B1-B5	126	151	159	147	147	148	155	152	148	143	139
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	126	159	168	179	179	179	186	182	176	171	165
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Debt Service-to-Revenue Ratio</b>											
<b>Baseline</b>	8	11	13	16	17	16	14	12	11	11	11
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2019-2029 2/	8	11	13	15	16	15	12	9	6	4	3
<b>B. Bound Tests</b>											
B1. Real GDP growth	8	11	14	17	18	18	15	14	13	13	13
B2. Primary balance	8	11	14	19	20	19	16	14	14	15	15
B3. Exports	8	11	13	17	18	18	15	13	13	14	14
B4. Other flows 3/	8	11	14	18	19	19	16	14	16	17	17
B5. Depreciation	8	12	16	19	21	21	17	15	14	14	14
B6. Combination of B1-B5	8	11	13	15	17	16	14	12	11	11	11
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	8	11	14	17	18	18	15	13	12	12	12
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

**Statement by Mr. Dumisani Hebert Mahlinza, Executive Director for Liberia and  
Mr. Bernard Wleh Jappah, Advisor to the Executive Director**

**May 31, 2019**

**I. Context and Background**

1. Our Liberian authorities appreciate the candid discussions during the recent 2019 Article IV Consultations. They value the Fund's policy advice and look forward to continued collaboration and engagement to restore macroeconomic stability and achieve sustainable and inclusive economic growth.

2. Liberia is facing major economic challenges emanating from the decline in commodity prices, significant drop in external grants, the lingering effects of the Ebola epidemic, and a massive scale down in the operations of the United Nations Mission in Liberia (UNMIL). To address these challenges, the new administration launched a medium-term national development plan, the Pro-poor Agenda for Prosperity and Development (PAPD 2019–23) in October 2018. The PAPD aims to give power to the people through macroeconomic empowerment and job creation; promotion of a cohesive society; provision of basic social services; creation of an enabling environment to foster peace and security; enforcement of the rule of law; and promotion of the private sector as the driver of growth.

**II. Recent Economic Developments and Outlook**

3. Economic activity slowed down from 2.5 percent in 2017 to 1.2 percent in 2018, owing to subdued demand for primary products in the export market, namely rubber and iron ore. Meanwhile, gold production improved due to a slight increase in global prices. Inflation accelerated from 13.9 percent in 2017 to 28 percent end 2018, triggered by a 27 percent depreciation of the Liberian dollar.

4. Despite improvements in gold exports, the current account deficit remained high at 23 percent of GDP in 2018. Improvements in the trade balance were also offset by declines in current transfers mainly from lower aid flows and the withdrawal of the UNMIL. Foreign exchange reserves are projected to decline to 2.1 months of import cover by end 2019, from 3 months of imports at end 2018.

5. In the short to medium term, the authorities are taking steps to accelerate economic growth beyond the 2 percent projected by staff for 2020, through the implementation of prudent fiscal, monetary and structural policies. In addition, they are committed to mobilizing additional fiscal resources, cutting non-productive recurrent spending, eliminating borrowing from the Central Bank, and avoiding reliance on high-cost external financing. These efforts will be complemented by support from the international community.

### III. Fiscal Policy and Debt Management

6. To achieve fiscal sustainability, the authorities have initiated a fiscal reform program anchored on increased revenue collection and expenditure efficiency, including management of the wage bill. In this respect, the authorities have launched a Domestic Revenue Mobilization Strategy aimed at raising revenue by 3 percent of GDP over the medium term, starting with a 0.25 percent increase in the next fiscal year. At the same time, new measures have been introduced to improve revenue collection and administration as well as broaden the tax base. Such measures include a new excise law, passed by the National Legislature in December 2018; introduction of electronic tax filing; and establishment of a platform for payment of taxes via mobile money. In addition, the authorities are also taking steps to simplify the tax code, improve the collection of property taxes, strengthen tax compliance and risk management, improve the integrity of the taxpayer's registry, and improve the system for the processing of customs declarations.

7. Despite the challenges in the implementation of the FY 18/19 budget, the authorities have instituted across the board cuts on goods and services including subsidies, while preserving health, education, and security expenditure. More significantly, the authorities continued to rationalize salaries of public servants in the high-income bracket, including those in the SOE sector, and introduced a hiring freeze. Further, they initiated work on payroll reforms with a view to harmonize wages and remove the discretionary management of allowances. They have also requested technical assistance (TA) from the Fund to evaluate the social impact of these reform measures. In addition, the authorities are reforming the management of public investments with the aim to enhance the implementation of donor-supported projects and align them to the government's national development plan. In this respect, a donor database has been developed, based on the PIMA recommendations.

8. Going forward, the authorities have prioritized preparation of a realistic and credible budget for FY 19/20. To this end, the FY 19/20 revenue estimates will be based on the previous year's outturn, reflecting macroeconomic fundamentals. The authorities have also intensified consultations among the three branches of government, as part of the preparations for the FY 19/20 draft budget, with a view to achieve consensus.

9. The authorities remain committed to implementing public financial management (PFM) reforms. In this context, they are working with development partners to ensure that the successor PFM project, IPFMRP II, addresses the core PFM challenges facing the country, including building human and institutional capacity in public procurement, investment in tax IT infrastructure, and improving cash management. Amendments to the PFM Law, aimed at strengthening budget execution and arrears management as well as transparency and accountability across government, have been submitted to the National Legislature.

10. The authorities are committed to maintaining debt on a sustainable level and preserving a moderate risk of debt distress. In this respect, all new development projects will be financed

on using grants or concessional financing. These policies will be anchored in the new debt management strategy to be developed with TA support. Meanwhile, the authorities plan to cancel two loans that would have led to debt sustainability breaches.

#### **IV. Monetary Policy**

11. The Central Bank of Liberia (CBL) is fully committed to tightening monetary policy, as necessary, to ensure price and exchange rate stability while safeguarding foreign exchange reserves. In this regard, the fiscal and monetary authorities have agreed on a policy coordination framework to facilitate implementation of the recommendations of the last safeguards assessment, including the promotion of the integrity of the CBL. The authorities have also committed to strengthening internal controls and improving budget effectiveness and efficiency at the CBL. They are stepping up efforts to address Government obligations to the CBL, with recapitalization of the Central Bank being a priority. In addition, the authorities are strengthening the work of the Liquidity Working Group (LWG) to improve the liquidity forecasting and management framework.

12. As part of an effort to modernize the monetary policy framework and deepen the financial sector, the CBL recently launched new monetary instruments, including a Standing Credit Facility (SCF), a Standing Deposit Facility (SDF), an Intra-day Facility (IDF) and CBL bills. Together, these facilities are expected to help in the management of monetary conditions and pave the way for a move towards an interest-based monetary framework.

13. To strengthen the governance and operational independence of the CBL, and consistent with Fund TA advice, the authorities completed the drafting of amendments to the CBL Act. The final draft includes provisions for a monetary policy committee, expansion of the Bank's mandate, restriction of CBL lending to government, a currency regime and assignment of the right to print the currency solely to the CBL. The plan is to submit the amended Act to the National Legislature for passage into law before the Legislature goes into recess in August 2019.

14. The authorities view the FX surrender requirement as a temporary measure, to be removed as soon as foreign exchange inflows improve. In order to mitigate the negative impact of the remittance split policy, the authorities will ensure that recipients get the fair value of their Liberian dollar receipts based on the market exchange rate.

#### **V. Financial Sector Policies**

15. The financial sector remains adequately capitalized, with all banks operating above the 10 percent capital adequacy ratio (CARs), except one bank which remains below the minimum capital requirement of US\$10 million. The CBL is working with the undercapitalized bank to resolve the breach in an orderly and timely manner. Meanwhile, the ratio of non-performing loans (NPLs) to total loans declined from 14.7 percent in 2017 to 13.8 percent in 2018. To address NPLs, the authorities have stepped up recovery efforts, and banks have

written-off a number of bad loans based on the write-off policy of the CBL. At the same time, the credit reference system is being upgraded. Further, the Bank is working with the fiscal authorities to resolve all direct and indirect GOL obligations to commercial banks, through the issuance of 7-year bonds.

16. In line with FATF's recommendations, a draft AML/CFT Act has been completed and will be validated by stakeholders, shortly. When passed into law, the Act will address concerns raised by FATF and regional bodies, through the establishment of an appropriate legal framework for the timely access to beneficial ownership and control of trust information and non-profit organizations. Further, the CBL has conducted an AML/CFT risk assessment of the financial sector and developed an AML/CFT on-site examination manual, with TA from the IMF. In addition, the CBL with Fund TA is working on the revision of the Financial Institutions Act (FIA), which should further strengthen the CBL's legal framework for banking regulation and supervision. The Bank has also taken measures to enhance transparency and disclosure standards in the banking system through the implementation of the International Financial Reporting Standards (IFRS).

## **VI. Structural Policies**

17. The authorities are committed to implementing a range of structural reform measures to improve the business climate and deliver broad-based inclusive growth. They have set up a Business Climate Working Group (BCWG) comprising the private sector, donor community, and government representatives, to identify binding constraints to private investment and provide concrete proposals for the improvement of the business climate. To this end, the authorities have issued an Executive Order aimed to reduce administrative and processing requirements for businesses, concessionaries, and real property owners. They have also abolished the import permit declaration system (IPD), which was viewed as a hindrance to business competition and costly to importers. Further, a new Land Rights Act has been passed and will provide certainty of ownership to agricultural concessionaires. As part of an effort to address corruption, the authorities have drafted amendments to the anti-corruption legislation in line with the PAPD objective to strengthen integrity of institutions, including the Judiciary.

## **VII. Conclusion**

18. The authorities remain committed to achieving the key objectives of the PAPD and enhancing sustainable and inclusive growth. To anchor the reform agenda and address the short to medium term macroeconomic challenges, the authorities have signaled a desire to negotiate an extended credit facility (ECF) arrangement with the Fund. They look forward to continued Fund engagement to address the macroeconomic challenges facing the country and achieving sustainable and inclusive growth.