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LIBERIA

July 2014

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND MODIFICATION OF PERFORMANCE CRITERIA—STAFF REPORT; AND PRESS RELEASE

In the context of the third review under the Extended Credit Facility Arrangement and request for waiver of nonobservance of performance criterion and modification of performance criteria, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 3, 2014, following discussions that ended on April 1, 2014, with the officials of Liberia on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 17, 2014,
- An **Informational Annex** prepared by the IMF
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Press Release** including a statement by the Chair of the Executive Board.

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Liberia*
Memorandum of Economic and Financial Policies by the authorities of Liberia*
Technical Memorandum of Understanding*

*Also included in Staff Report

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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LIBERIA

June 17, 2014

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

Context. Real GDP grew at 8.7 percent in 2013 and is projected to decline to 5.9 percent in 2014 as mining production decelerates. Inflation picked up reflecting the depreciation of the Liberian dollar in the context of a widening current account deficit, but should moderate in 2014 as international food and fuel prices decline. Risks to the outlook stem from delays in priority public investment and declines in rubber and iron ore prices.

Key challenges and risks. Significant revenue shortfalls and recently-uncovered spending commitments outside the budget process underscore remaining capacity constraints and institutional weaknesses that ought to be resolutely addressed to preserve the credibility of the budget and the authorities' ability to deliver on their development agenda.

Policy discussions

- Measures aimed at strengthening the budget process, in line with the public financial management and procurement laws, should help reduce fiscal risks. The new independent Liberia Revenue Authority will prioritize implementation of tax controls to improve compliance and the revenue performance.
- Containing inflation in the dual currency regime will require enhanced liquidity management and stronger coordination between fiscal and monetary policy.
- The current pace of external borrowing is consistent with the temporary scaling-up of public investment to address infrastructure gaps, but should begin to moderate.

Program performance remains mixed. Most end-December 2013 performance criteria (PCs) and indicative targets (ITs) were met, except for the PC on government revenue and the IT on external borrowing. Four out of five structural benchmarks (SBs) were met on time. Based on the authorities' strong corrective actions to address the revenue shortfall and to strengthen expenditure controls, including the initiation of both an external audit of the extra-budgetary commitments and a review of procurement procedures in key ministries (prior actions), staff supports the completion of the third ECF review. Staff also supports the authorities' request for a waiver for the nonobservance of the floor on government revenue (PC) and to modify the end-June net foreign reserves PC and the IT on public sector gross external borrowing.

Approved By
Abebe Aemro Selassie and Chris Lane

Discussions were held in Monrovia (March 19–April 1, 2014). The mission comprised Ms. Deléchat (head), Messrs. Narita and Rosales (AFR), and Mr. Guo (SPR). Mr. Amo-Yartey, resident representative, and Mr. Deline, local economist, assisted the mission. The mission met with Minister of Finance Konneh; Central Bank Governor Mills Jones; other senior officials, representatives of the private sector, civil society, and development partners. Ms. Dlamini (OED) joined the discussions.

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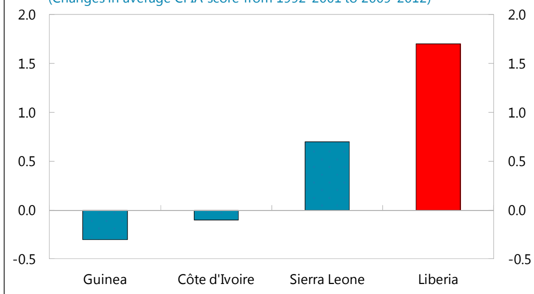
RECENT DEVELOPMENTS

1. **Liberia's achievements since the end of the conflict are impressive, although significant challenges remain**. Notably, over the past decade, peace has been maintained and institutions re-built, iron-ore exports have resumed, and the rehabilitation of key infrastructure is under way. Although admittedly starting from a low base, Liberia shows the largest improvement in its CPIA rating among fragile sub-Saharan African countries (Text Chart 1). Nonetheless, Liberia remains a fragile country with significant capacity constraints and governance challenges. Pushing ahead with ongoing reforms is imperative to consolidate past gains and improve resilience.

Text Chart 1. Liberia: Improvement in Policy and Institutional Capacity
(Changes in average CPIA score from 1992-2001 to 2009-2012)



Sources: World Bank and IMF staff calculations.

2. **Security risks remain contained, but politics increasingly weigh in on economic policy**. The UNMIL drawdown is proceeding as planned though the buildup in local police presence has been slow owing to budgetary constraints. Disputes among parliamentarians over the budget's composition ahead of the October's legislative elections could delay its approval. Recent amendments to the Central Bank of Liberia (CBL) Act prevent CBL officials to run for office for three years after stepping down and remove the CBL's delegated authority to issue currency, which could interfere with its ability to conduct monetary policy.

3. **Output continues to expand** (Table 1). Economic growth reached 8.7 percent in 2013 owing to larger iron-ore production, while weak activity in the rubber and forestry sectors dampened non-mining growth. Inflation increased to 9.8 percent at end-April 2014, reflecting the pass-through from the 20.7 percent currency depreciation since December 2012. The real effective exchange rate depreciated by 6.6 percent in 2013, only partly reversing the previous years' strong appreciation trend.

4. **Revenue shortfalls have constrained budget execution**. As of end-March 2014, current and on-budget capital spending have remained contained to cover previous years' spending overruns and address a 0.7 percent of GDP revenue shortfall. Credit-financed investment increased, mostly reflecting the start of the hydro-power plant rehabilitation (Text table 1).

Text Table 1. Liberia: Central Government Operations
(Percent of GDP)

	July 2012 - March 2013	July 2013 - March 2014
Revenues	20.3	19.5
Tax	14.4	13.4
Non tax	4.2	3.1
Grants	1.7	3.0
Total spending	19.9	18.9
Current	17.2	15.7
Capital	2.8	3.2
Credit financed	0.3	2.2
Overall balance	0.4	0.6

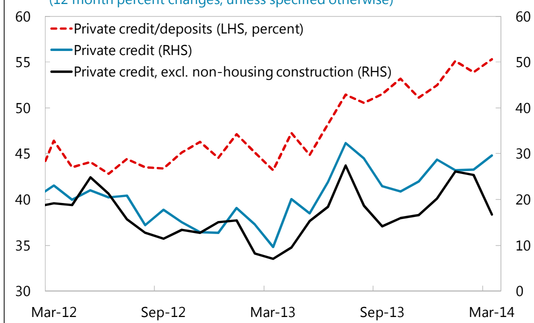
Source: Ministry of Finance and IMF staff

5. **The current account deficit widened in 2013** (Table 2). Although lower capital goods imports contributed to tighten the trade balance, the

contraction in remittances and net income led to a widening of the current account deficit. Reserves coverage declined to 2.7 months of essential imports.

6. **Private credit expanded but bank profitability remains low** (Tables 3 and 4). Private sector credit grew by 28 percent at end-March (y/y) (Text Chart 2).[1] Although liquidity declined in line with credit growth, banks remain adequately capitalized and liquid. Nonperforming loans declined to 14.5 percent, owing to increased debt collection efforts, but high operational costs continue to depress bank profitability. Banking supervision is being strengthened, notably with the introduction of risk-based supervision.

Text Chart 2. Credit to the Private Sector
(12 month percent changes, unless specified otherwise)



Sources: Central Bank of Liberia and IMF staff calculations.

7. **Most third review PCs and ITs have been met, and progress is being made towards the fourth review targets** (MEFP, Tables 1, 2, 3).

- Six out of ten indicative targets for end-September 2013 were met. The missed ITs include the floor on revenue collection of the central government and the floor on CBL's net foreign exchange position.

- Regarding end-December 2013 targets, the floor on central government revenue was missed by US$15.8 million (0.7 percent of GDP) due to changes in the income tax reporting base from presumptive to actual, legal issues in the forestry sector and lower imports. In response, the authorities reversed the income tax measure in October 2013 (which became effective in January 2014 due to quarterly reporting) and launched a plan to tackle tax evasion and smuggling.

- The ceiling on gross external borrowing by the public sector was missed by US$32.7 million reflecting newly-ratified loans for priority infrastructure projects. As the terms of the new borrowing are highly concessional, debt sustainability would not be compromised.

- External budget support fell short by US$22.2 million, due in part to late ratification by the Legislature of a budget support loan and delays in meeting disbursement benchmarks by the Ministry of Education. This triggered the program adjustor for the PCs on CBL's net reserves and direct financing to the government, though the authorities met the unadjusted reserves target. Budget support grants are projected to materialize by June 2014.

- Four out of five SBs were met on time. The daily sweeping of government accounts at CBL (remaining SB) became effective on February 2014 (MEFP, Table 2).

[1] Private credit growth excluding loans to public road construction projects is 17 percent at end-March (y/y).

- As of end-March 2014, seven out of the ten ITs have been met, including the floor on CBL's net foreign exchange position reflecting the return to the CBL of maturing placements (MEFP, Table 1).

- The end-March 2014 SB on the payroll cleanup was met, allowing the removal of 4,000 ghost workers. However, the insurance law has yet to be submitted to Parliament (end-March benchmark). Remaining end-June benchmarks appear on track to be met, with the exception of the publication of revised national accounts.[2]

POLICY DISCUSSIONS

A. Outlook and Risks

8. **The economic outlook is favorable, but with significant downside risks** (Text Table 2). Growth is projected to decline to 5.9 percent in 2014 as mining production decelerates, but should average 8 percent over the medium term provided iron-ore projects progress as planned and non-mining activities—agriculture, construction and services—pick up. On the upside, new iron-ore production coming on stream earlier than anticipated could boost medium-term growth. The authorities also indicated that the outlook for 2014 and beyond could be more favorable owing to recent measures to expand agricultural production and address bottlenecks in the forestry sector. The main downside risks to the outlook stem from (i) the October legislative elections which could delay approval of the FY2015 budget; (ii) delays in public investment reflecting a tighter budget; and (iii) further declines in rubber and iron-ore prices (**MEFP ¶2**).

Text Table 2. Liberia: Medium-Term Outlook, 2012–17

	2012	2013		2014		2015	2016	2017
	Est.	Second Review	Est.	Second Review	Proj.	Proj.	Proj.	Proj.
(Annual percentage change)								
GDP at constant prices 1/	8.3	8.1	8.7	6.8	5.9	6.8	7.2	9.4
GDP at constant prices excluding mining sector	3.4	5.1	4.3	7.5	6.1	7.1	7.2	7.2
Consumer prices (average)	6.8	7.7	7.6	7.0	8.3	7.7	7.2	6.7
Consumer prices (end of period)	7.7	8.5	8.5	6.4	7.7	7.5	6.9	6.5
(Percent of GDP, unless otherwise indicated)								
Central government budget (percent of GDP) [1]								
Total revenue and grants	28.0	30.3	30.2	29.0	27.1	24.9	25.6	24.9
Of which: total revenue	26.3	27.8	27.7	24.9	23.1	22.3	22.8	22.9
Total expenditure and net lending	31.4	31.9	31.7	32.8	30.9	32.0	30.9	30.3
Overall fiscal balance (including grants)	-3.4	-1.6	-1.6	-3.7	-3.8	-7.1	-5.4	-5.4
Current account balance (including official grants)	-28.0	-48.0	-34.7	-51.4	-46.5	-35.4	-21.5	-24.2
Gross official reserves (months of imports) [2]	2.8	2.7	2.7	2.8	2.8	3.0	3.0	3.0

Sources: Liberian authorities and IMF staff estimates and projections.

[1] Budget data expressed as fiscal year ending in June on a cash basis, i.e., 2012 = FY2011/12.

[2] Excludes UNMIL service and iron-ore concessions related imports, but includes IMF disbursements under the requested ECF.

[2] This measure is supported by Fund technical assistance. The Statistics Institute has already prepared a set of national accounts, but the experts who will verify and validate these data are only available in July.

B. Addressing Fiscal Challenges

9. **Substantial revenue shortfalls and off-budget commitments compromise the credibility of the budget and the authorities' ability to implement their development agenda**. Significant progress towards building sound fiscal institutions has been made so far. Recent achievements include closer monitoring of State-Owned Enterprises' performance, the establishment of a Treasury Single Account (in its final stages), and the payroll cleanup, which is expected to yield medium-term savings amounting to about 0.5 percent of GDP on the wage bill. However, remaining capacity constraints and institutional weaknesses hamper effective tax administration and public financial management, and threaten hard-won macroeconomic stability gains. In this context, fiscal policy discussions focused on measures to strengthen tax and expenditure controls, as well as oversight of the public investment program, which would be supported by targeted Fund technical assistance.

10. **The authorities agreed that additional measures would be necessary to address the revenue shortfalls**. The administrative measures implemented earlier in the year to tackle tax evasion and smuggling helped improve collection but did not suffice to compensate for the revenue loss. Weak tax compliance by foreign concession companies and state entities has led to further underperformance. As a result, staff's revised projections indicate that end-June revenue (excluding grants) could fall short of the US$492 million revenue floor by as much as US$20–30 million (1–1½ percent of GDP). The authorities emphasized that they were committed to improve revenue performance. They agreed with staff that strictly enforcing provisions in existing concession agreements and collecting all fees and dividends owed by state entities could yield about US$11.5 million or 0.6 percent of GDP in one-off additional revenue (**MEFP ¶8**). Staff also highlighted that ensuring the integrity of the taxpayer registry and the implementation of tax controls would be an important objective for the new Liberia Revenue Authority (LRA). In that regard, staff urged the authorities to ensure an on-time start of LRA operations on July 1st.

11. **Recently-uncovered unfunded government liabilities underscore weaknesses in budget planning and monitoring, as well as low compliance with the public financial management and procurement laws**. The authorities recently identified unfunded spending commitments on road projects awarded to private construction companies totaling US$73.9 million (3.8 percent of GDP). These commitments correspond to a list of 51 ongoing projects, amounting to US$146.5 million (7.5 percent of GDP), which were initiated between FY2010 and FY2013. The authorities indicated that most of these projects were initiated on-budget, and that they made partial payments for completed works in previous fiscal years. However, weak budgeting capacity and inadequate coordination, both within the Ministry of Finance and the Ministry of Public Works (MPW), partly account for the failure to adequately budget for multi-year projects. It also appears that some projects were initiated outside the budget, on the basis of "Letters to Proceed" signed by

former MPW officials. Most of these projects did not comply with all the required procurement procedures (**MEFP ¶9**).[3]

12. **The authorities are implementing strong corrective actions to address these shortcomings**. The President mandated the General Auditing Commission (GAC) to conduct an external financial audit of these contracts, which has been initiated, and to review contracting practices in key line ministries (prior action). The GAC is finalizing its regular audit of MPW for FY2010–12 and will communicate its findings to Fund staff. The authorities concurred with staff that no further payments would be made until the legality of remaining claims had been verified by these audits. In parallel, the Office of the President is putting together a technical commission to look into the legal, financial and technical aspects of selected road projects and propose remedial measures.[4] The Minister of Finance has issued a statement reminding state entities and the public of the legal requirements for government contracts to avoid the recurrence of unfunded liabilities. Pending the completion of the financial and technical audits, the authorities have included a provision of US$17 million for ongoing road projects and road maintenance in the FY2015 budget. If the provision proves to be insufficient, the authorities plan to identify additional savings on non-priority spending to accommodate additional road payments and submit a supplementary budget to parliament. Once verified, amounts outstanding will be brought on budget in subsequent years as the projects are being completed (**MEFP ¶10**).

13. **The revenue shortfalls and extra-budgetary demands further compress an already-tight spending envelope**. Consistently with the available financing envelope, the authorities are reducing spending beyond the savings needed to cover last year's overruns. The payroll clean-up, together with cuts in special allowances and non-priority transfers to government agencies, will help generate additional savings (of up to 1½ percent of GDP) and keep the end-June fiscal deficit at 3.8 percent of GDP as envisaged at the time of the second ECF review (**MEFP ¶7**).

14. **The draft FY2015 budget prioritizes ongoing infrastructure projects in line with the Agenda for Transformation**. Staff welcomed the inclusion in the budget, for the first time, of externally-financed projects, which will facilitate the monitoring of the overall public investment program. Core revenues are projected to increase by 6 percent in nominal terms compared with the estimated outturn for FY2014. The fiscal deficit will widen to 7.1 percent of GDP, financed by higher external disbursements for priority infrastructure projects (Box 1). The authorities agreed that key challenges will be to avoid the budget's capture by political interests ahead of the October legislative elections and to ensure its timely approval by the Legislature (**MEFP ¶13**).

[3] The authorities disbursed US$14.6 million in January 2014, mainly to alleviate liquidity problems in some banks. Some construction companies had used the contracts as collateral to obtain financing from domestic banks and, as the government has frozen payments on outstanding claims, have not been able to repay their loans. Remaining bank exposures after the January payment appear manageable and do not pose a threat to financial stability.

[4] The technical commission will be composed of civil engineers and will review compliance of physical works with the contract terms. It will also assess whether the government received adequate value for money.

15. **Additional structural measures to strengthen public financial management are being implemented, supported by Fund technical assistance**. The authorities are strengthening oversight of investment projects. A database of all investment projects will be prepared by end-December 2014 and, starting with the FY2016 budget, a list of all ongoing projects for which multi-year allocations are required will be included in the draft budget to ensure adequate funding (new end-December structural benchmarks) (**MEFP ¶11**, Table 4). The budget planning process will allow more time for consultations with Ministries and Agencies (new end-June structural benchmark) (**MEFP ¶12**, Table 3).

Box 1. Liberia's FY2015 Budget

The draft FY2015 budget envelope seeks to contain current spending, while larger external financing is utilized for priority public infrastructure projects.

- *Core revenue estimates (tax and non-tax)* have been revised downwards compared with the 2nd review in light of this year's underperformance.
- *Lower grants* reflect a shift from budget support grants to loans by multilateral development banks.
- *Current spending is reduced in real terms*. The lower wage bill is the result of the payroll clean up and a salary freeze. Non-priority spending on goods and services, including on foreign travel, has been reduced.
- *Capital spending would increase to 12.3 percent of GDP*, most of which is externally-financed.
- *Priority sectors* include transport, energy, and agriculture. Resources for the security sector are increased in line with the UNMIL drawdown.

Box 1 Table1. Liberia: FY2015 Budget

(Percent of GDP)

	FY2014 Estimate	FY2015 Second Review	FY2015 Draft Budget
Revenue	**27.1**	**28.5**	**24.9**
Current	23.2	25.4	22.3
Taxes	18.6	20.5	17.8
Non-tax	4.6	4.9	4.5
Grants	4.0	3.1	2.7
Expenditure	**30.9**	**33.7**	**32.0**
Current spending	21.0	23.5	19.7
Salaries and wages	9.8	10.8	9.6
Goods and services	6.3	6.7	5.7
Interest payments	0.4	0.4	0.4
Transfers to SOEs	4.4	5.7	4.0
Capital spending	9.9	10.2	12.3
Domestic financed	3.6	3.2	3.7
Donor financed	6.3	6.9	8.6
Overall balance, including grants	**-3.8**	**-5.1**	**-7.1**
Financing	**3.8**	**5.1**	**7.1**
External	**4.5**	**5.2**	**6.7**
Domestic	**-0.7**	**-0.1**	**0.3**

Sources: Liberians authorities and IMF staff calculations.

- *Significant external concessional financing* (6.7 percent of GDP) will allow the deficit to expand. Higher disbursements are mostly associated with the hydro-power plant rehabilitation and other infrastructure projects.
- *Domestic financing is gradually increasing* in line with the authorities' debt management strategy.
- *Risks.* Pressures from extra-budgetary commitments could re-surface as the US$17 million (0.8 percent of GDP) provision to cover extra-budgetary commitments on road projects may prove insufficient once the financial audit is completed. Deep cuts in operational funding for ministries and agencies may not prove sustainable.

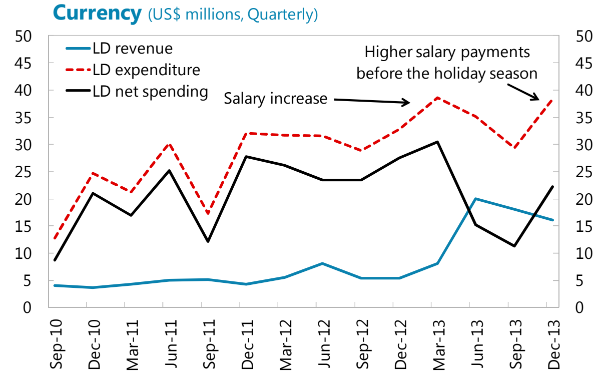
C. Strengthening the Monetary and Exchange Rate Policy Framework

16. **The recent depreciation pressures reflect a widening current account deficit and weak Liberian dollar liquidity management**. Staff and the authorities agreed that the depreciation is mainly driven by a widening current account deficit in the context of the scaling up of public

investment and the development of large mining projects. However, weak coordination between fiscal and monetary policy, including significant net injections of Liberian dollars in the earlier part of 2013 and reduced foreign exchange sales in the second half of the year, may have exacerbated the depreciation pressures (Figure 3). In turn, the exchange rate depreciation has led to higher inflation. Staff estimates that the pass-through ranges from 46 to 76 percent after one year (Appendix II, **MEFP ¶16**).

17. **Further strengthening liquidity management would help mitigate depreciation pressures and contain inflation**. The authorities agreed to enhance coordination between the Ministry of Finance (MoF) and CBL, through regular meetings of the Liquidity Monitoring Committee to better control the Liberian dollar money supply (**MEFP ¶17**). The authorities also agreed to pursue ongoing efforts to collect more revenue in Liberian dollars (Text Chart 3). The CBL reduced the reserve requirements for U.S. dollar deposits from 22 to 15 percent at end-April, which temporarily alleviated depreciation pressures. Staff urged the authorities to unify the requirements for both Liberian and U.S. dollar deposits as soon as possible while sterilizing the impact on the Liberian dollar money supply (**MEFP ¶18**). Finally, staff and the authorities agreed that it would be important to continue to develop monetary policy instruments. In this regard, staff welcomed the CBL's plans to establish a discount window by mid-2014 to develop an inter-bank market. Once money markets are more developed, staff noted that the objective would be to use exclusively T-bills for raising fiscal resources, as well as for liquidity management operations of the CBL, including through securitizing part of the government's debt at the CBL.

Text Chart 3. Revenue and Expenditure in Local Currency (US$ millions, Quarterly)



Sources: Liberian authorities and IMF staff calculations.

18. **The authorities remain committed to maintaining an adequate reserve buffer**. The CBL has refrained from financing new credit stimulus initiatives, and funds from maturing placements have been returned to reserves.[5] A significant increase in CBL's foreign exchange intervention in January was scaled back shortly to preserve net foreign reserves. Staff and the authorities agreed that intervention should be limited to smoothing excessive exchange rate volatility. At the same time, staff agreed with the authorities that a more gradual pace of reserves accumulation than envisaged previously, in line with the projected government's U.S. dollar sales, would be more realistic and remain consistent with the end-December program target of 2.8 months of imports (**MEFP ¶18**).

[5]The government also repaid US$4 million in bridge financing to Central Bank of Liberia in December 2013 and will pay the outstanding US$4 million by June 2014.

19. **The authorities continue to implement measures to improve access to finance**. A revised commercial code, which provides a framework for bankruptcy and debt settlement and will strengthen the commercial court's effectiveness, has been submitted to parliament. Other measures include ongoing progress with the credit reference system and a collateral registry, and the payments system reform. The CBL is also actively promoting mobile banking and rural finance (**MEFP ¶19**).

D. Addressing Development Needs While Maintaining Debt Sustainability

20. **The pace of new borrowing has accelerated over the past year**. Ratified loans since July 2012 reached US$377 million as of end-December 2013, with another US$228 million pending ratification and a US$60 million package under negotiation for the rehabilitation of the international airport's runway (**MEFP**, Text Table 3). As the terms of the new borrowing are highly concessional, the average annual present value of newly-contracted debt would rise from 4 percent of GDP as envisaged under the program to 5.3 percent of GDP over 2012–15. Disbursements have been slow, however, owing to the long ratification process and project implementation bottlenecks.

21. **The DSA update indicates that debt would remain sustainable**. The risk of debt distress remains low, even under the assumption that all the available financing, including about US$416 million included in the multilateral development banks' pipeline, is disbursed within the next 8 years. Therefore, staff's view is that the increase in external borrowing, focused on infrastructure projects critical to addressing the country's binding growth constraints, remains consistent with debt sustainability. However, maintaining the same pace of borrowing over 2016–18 would tilt the risk of debt distress from "low" to "medium".

22. **New financing operations ought to carefully balance development needs and medium-term debt sustainability**. Staff and the authorities concurred that the current project portfolio should have high economic and social returns as it targets binding growth constraints. However, staff highlighted that the fast borrowing pace cannot be the norm for the medium term, and urged the authorities to conduct rigorous cost-benefit analysis of new projects and ensure their prioritization and sequencing. The recently-adopted medium-term debt management strategy (MTDS) indicates that all new borrowing should be exclusively dedicated to fund priority investments, and that highly concessional terms should be sought to minimize associated costs and risks.

23. **Natural resources revenue could open up additional fiscal space to address Liberia's development challenges, provided that they are sustainably managed**. Mining revenue is projected to amount to about 2 percent of GDP or 8 percent of revenue over the medium term, but with strong upside potential from new mining projects and, potentially, oil production if commercially-viable deposits are found. Staff supports the authorities' plans to set up a legal framework to manage resource wealth and noted that a fiscal rule could help smooth spending while addressing uncertain and volatile mining revenue.

PROGRAM MONITORING AND RISKS

24. **Staff supports the authorities' request for a waiver of nonobservance and modifications of program targets**. Regarding the missed revenue PC, the authorities have implemented prompt corrective actions to strengthen revenue collection and tax compliance has improved, though the income tax loss could not be recovered. Staff also supports the authorities' requests to (i) lower the floor on net foreign exchange position for end-June from US$253 to US$245 million to smooth the reserve accumulation path; and (ii) increase the IT on gross external borrowing of the public sector for FY2014 to US$265 million to accommodate the most pressing infrastructure needs while maintaining debt sustainability. The limit for FY2015 is requested to be set at US$153.2 million. In addition, staff supports the modification of the definition of gross central bank financing to the government, whereby an overdraft would no longer be defined on an account-by-account basis but, rather, on an overall balance basis in light of the ongoing progress towards a Treasury Single Account. Staff and the authorities have also reached understandings on adopting the unified discount rate of 5 percent to assess the concessionality of external borrowing.

25. **The authorities have adopted strong corrective measures to strengthen public financial management (PFM) and enhance the credibility of the budget**. The financial audits of MPW and of the road contracts should allow proper vetting of future payments on these contracts. The broader review of contracting procedures in line Ministries would help identify and address remaining weaknesses in the procurement process. The authorities are also committed to strengthening the budget process and, in particular, oversight of the public investment program. Staff will closely monitor progress with those measures, in particular the completion of the audits and follow-up on their recommendations.

26. **Program risks have increased**. Budget execution challenges combined with rising inflation could jeopardize macroeconomic stability and social cohesion. The proposed measures to strengthen the budget process and domestic liquidity management would help mitigate these risks, provided they are forcefully implemented.

STAFF APPRAISAL

27. **Liberia's economy grew strongly in 2013 and the outlook is positive, but not without risks**. Higher public investment and new mining projects will drive medium-term growth. Downside risks include further declines in iron ore and rubber prices, and delays in budget approval associated with the October legislative elections, which would also delay public investment projects.

28. **Program performance remains mixed**. Significant revenue shortfalls and extra-budgetary commitments underscore serious capacity constraints and institutional weaknesses that ought to be decisively addressed to preserve the credibility of the budget and the ability of the authorities to deliver on their development agenda.

29. **Tax administration ought to be strengthened to address poor compliance, including by public entities**. Enforcing tax controls and collecting fees and dividends owed by state entities should be pursued resolutely. Staff urges the authorities to ensure an on-time start of LRA operations, which would be essential to begin addressing weak compliance and strengthen revenue administration.

30. **The authorities are taking resolute steps to improve public financial management**. Once completed, the financial audit of extra-budgetary commitments and review of contracting procedures in key Ministries should help prevent the recurrence of unfunded spending liabilities. Staff urges the authorities to ensure that the audits are promptly completed, their results published and their recommendations implemented. Other measures aiming at ensuring strict enforcement of the public financial management and procurement laws, as well as enhanced oversight of the public investment program, should also be forcefully executed.

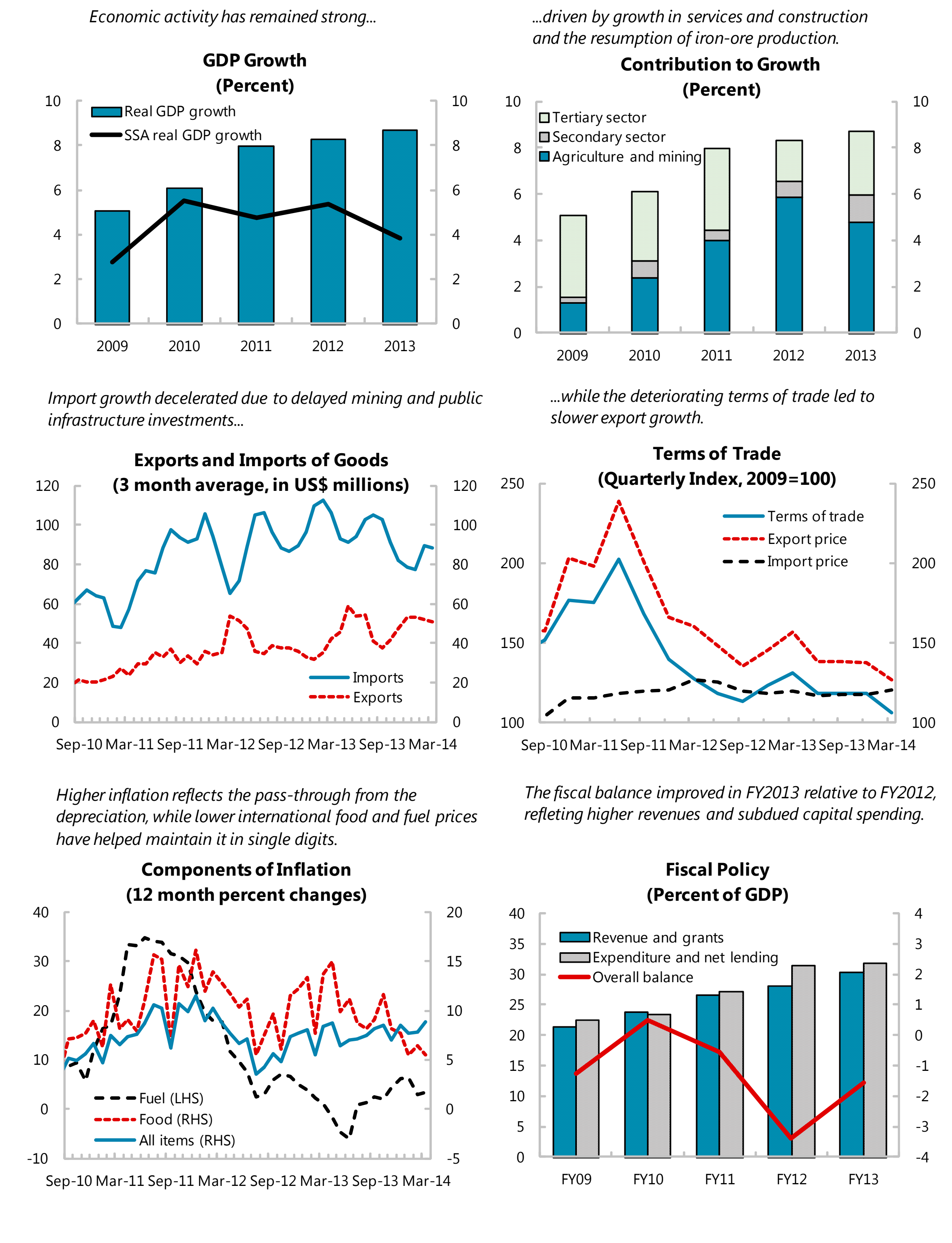
31. **The realistic revenue envelope of the draft FY2015 budget should facilitate its implementation**. Contained current spending and larger external financing support priority public infrastructure projects which, once completed, would have transformative impacts on the economy. However, timely approval of the budget will be critical to ensure its effective implementation. Staff welcomes the authorities' commitment to transparently address fiscal risks stemming from the off-budget liabilities.

32. **More effective liquidity management would help contain inflation**. Changing fundamentals, including a widening current account deficit, have contributed to the exchange rate depreciation. Nonetheless, enhanced coordination between the Ministry of Finance and the CBL is needed to better control the Liberian dollar money supply. While the recent reduction of reserve requirements for U.S. dollar deposits is welcome, staff urges the authorities to unify the requirements for both Liberian and U.S. dollar deposits as soon as possible. Staff supports the authorities' plans to further develop domestic monetary policy instruments.

33. **Balancing development needs with absorptive capacity is critical to maintaining debt sustainability**. The recent fast pace of debt accumulation needs to moderate to ensure that debt remains sustainable. The authorities should prioritize financing on the most concessional terms and conduct cost-benefit analysis of new projects to ensure proper prioritization and in line with absorptive capacity. Staff welcomes the adoption of the new medium-term debt management strategy, which will help guide borrowing decisions.

34. **Staff supports the completion of the third ECF review given the program performance and the strength of the authorities' policy commitments**. Staff recommends approval of the waiver and modification of program targets as requested by the authorities.

Figure 1. Liberia: Recent Economic Developments

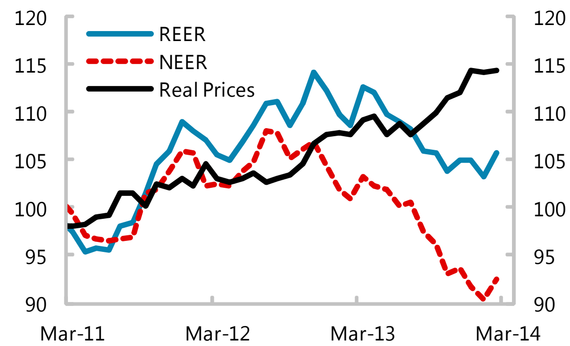


Sources: Liberian authorities and IMF staff estimates and projections.

Figure 2. Liberia: External Sector Developments

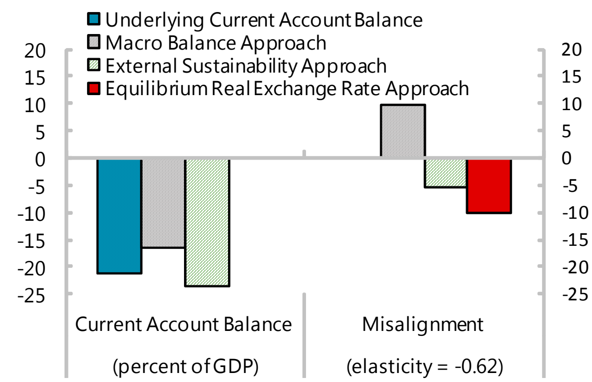
The real effective exchange rate depreciated in 2013, partly reversing the previous appreciation…

Real Effective Exchange Rate
(Index, 2011=100)



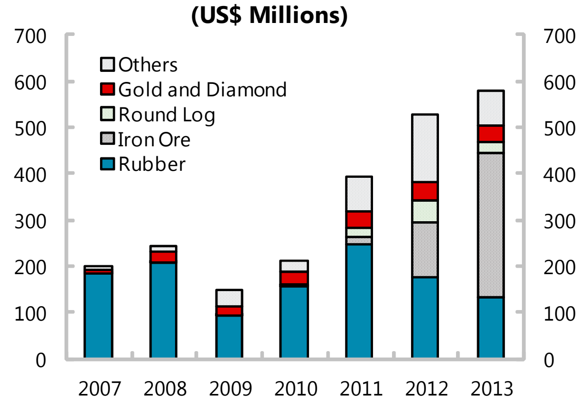
…while it remains broadly in line with fundamentals over the medium term.

Medium-term Exchange Rate



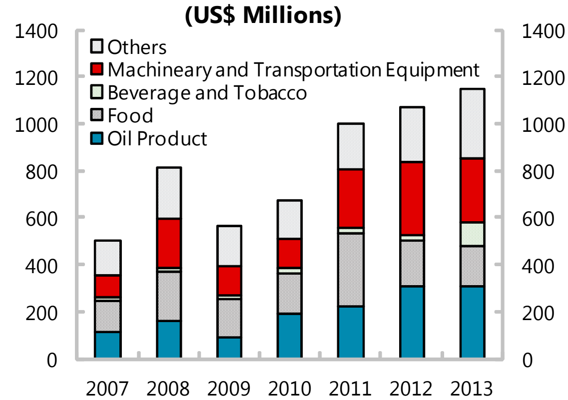
Export growth has been led by iron ore.

Exports
(US$ Millions)



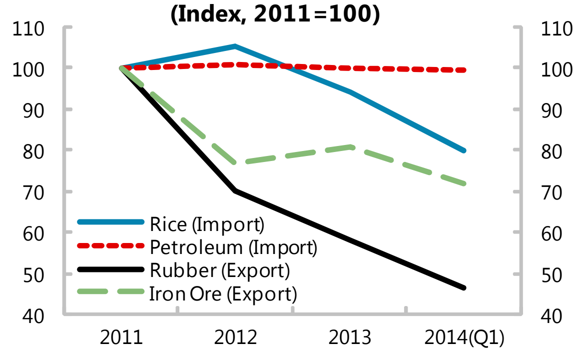
Machinery imports slowed down in 2013.

Imports
(US$ Millions)



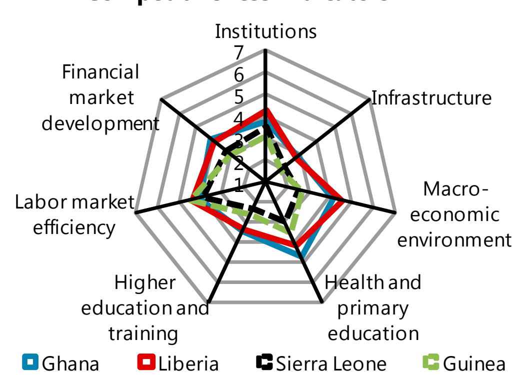
Prices of export goods have dropped significantly.

Commodity Prices
(Index, 2011=100)



Liberia is relatively competitive among peer countries, but infrastructure gaps remain a main challenge.

Competitiveness Indicators



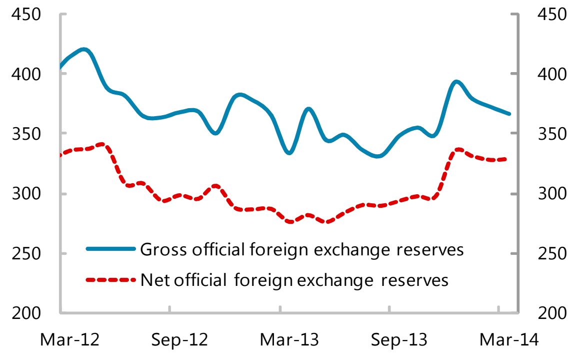
Sources: Liberian authorities, World Economic Forum, and IMF staff estimates and calculations.

Figure 3. Liberia: Foreign Exchange Developments

(US$ Millions, unless otherwise indicated)

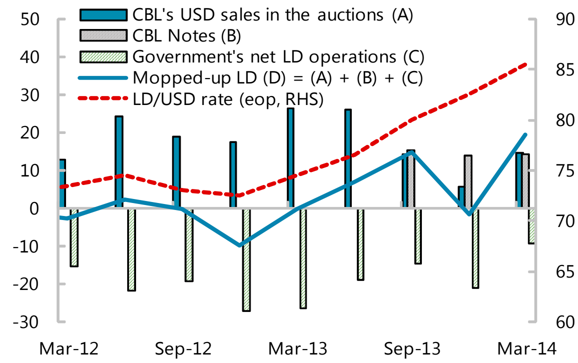
Reserve accumulation accelerated at end-2013, reflecting in part lower intervention in the foreign exchange auction.

Official Foreign Exchange Reserves



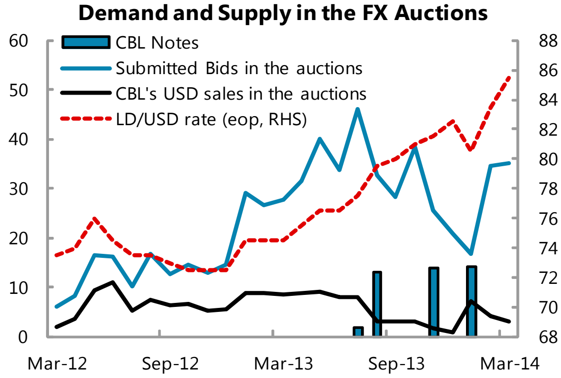
Limited mopping-up of Liberian dollars also contributed to the depreciation pressures.

Foreign Exchange Transactions



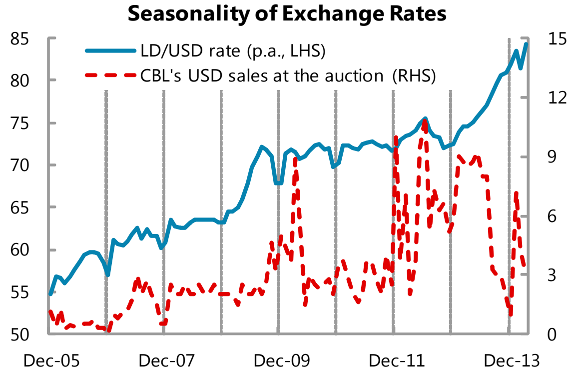
Increased demand for U.S. dollars and limited supply resulted in a large depreciation in 2013.

Demand and Supply in the FX Auctions



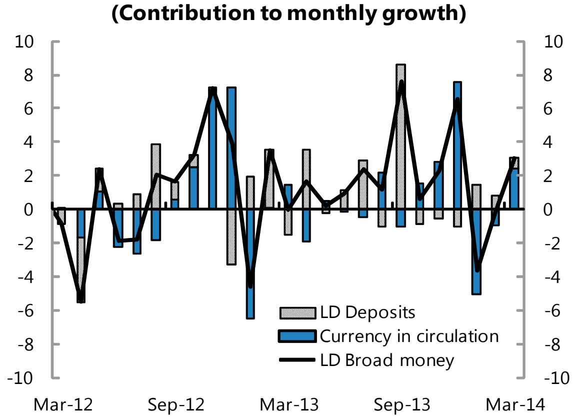
The closure of the foreign exchange auction and more liquidity demand during the holidays led to a seasonally high demand for U.S. dollars at the end of the year.

Seasonality of Exchange Rates



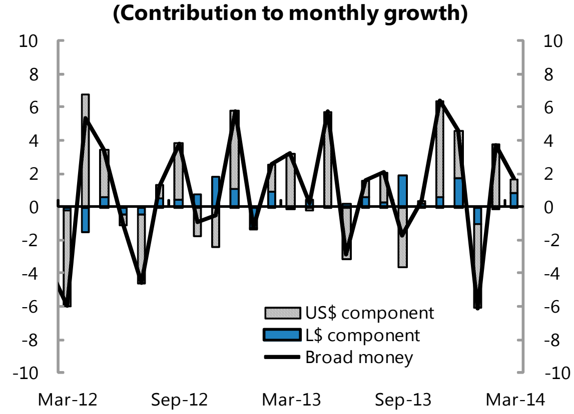
Liberian-dollar money supply grew fast at end-2013, driven by increased currency in circulation...

Liberian-dollar Broad Money
(Contribution to monthly growth)



...while the U.S.-dollar component mostly accounted for total broad money movements.

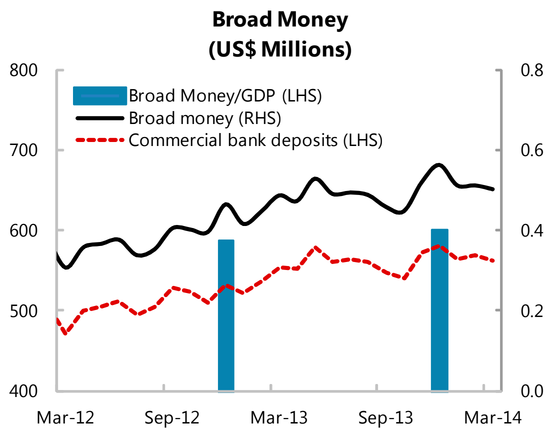
Broad Money by Currency
(Contribution to monthly growth)



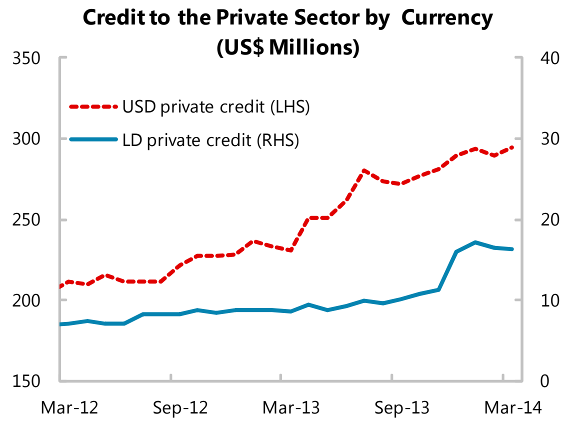
Sources: Liberian authorities and IMF staff estimates and projections.

Figure 4. Liberia: Monetary and Financial Developments

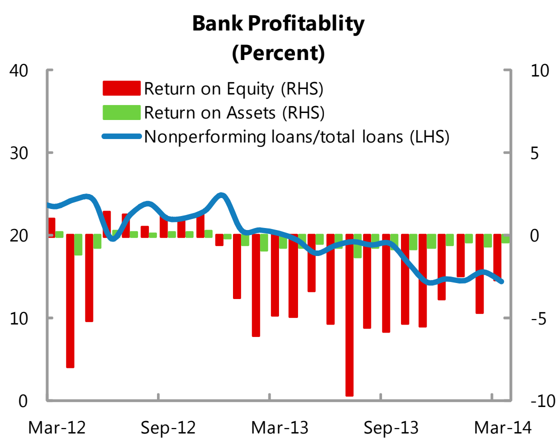
Broad money growth has remained steady...



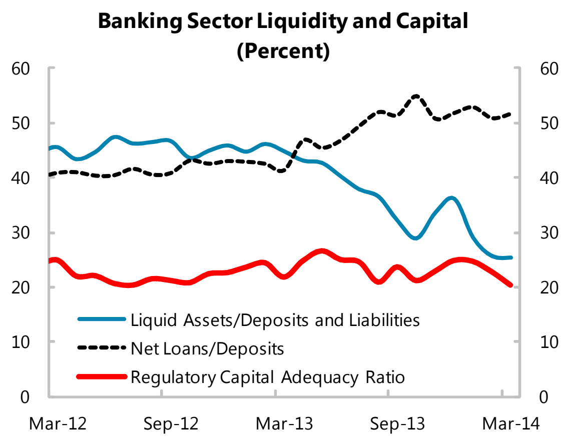
...and private sector credit grew strongly in the second half of 2013, in part driven by loans to road construction projects.



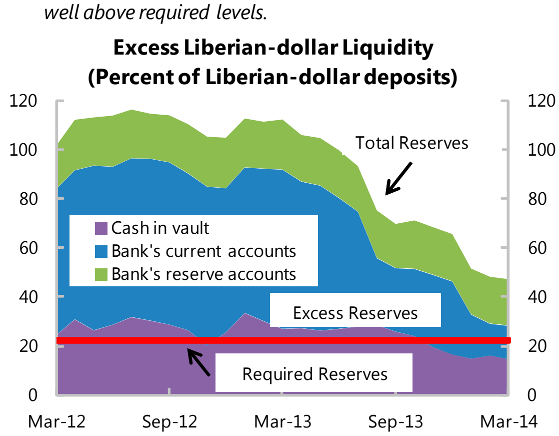
Nonperforming loans have declined but bank profitability has remained low.



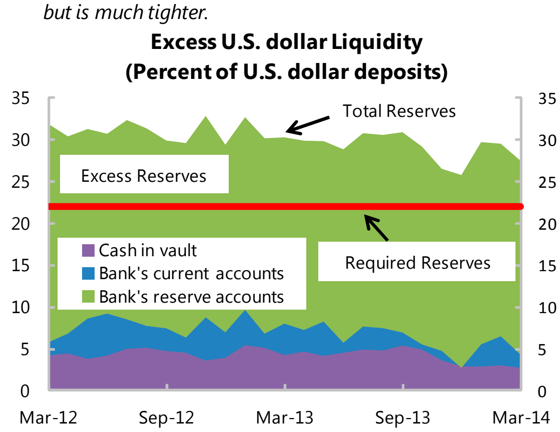
Banks are well capitalized and liquid, although liquidity has declined in line with credit growth.



Liberian-dollar liquidity declined, but remains well above required levels.



U.S. dollar liquidity remains relatively stable but is much tighter.

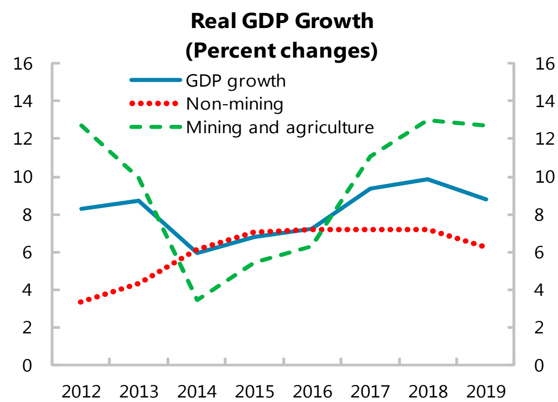


Sources: Liberian authorities and IMF staff estimates and projections.

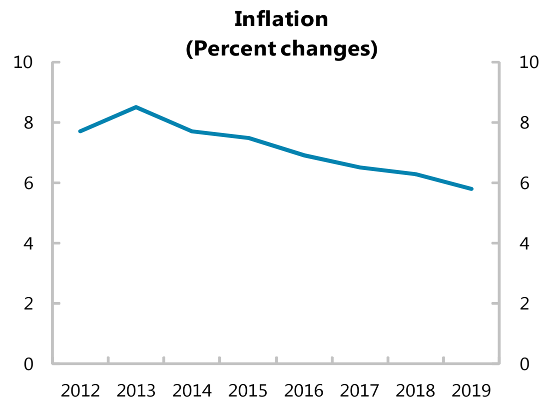
Figure 5. Liberia: Medium-Term Outlook, 2012–19

(Percent of GDP, unless otherwise indicated)

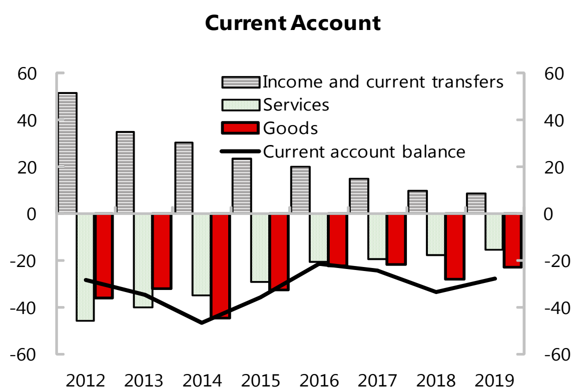
The medium term outlook is positive, helped by the expansion of mining and non-mining activity...



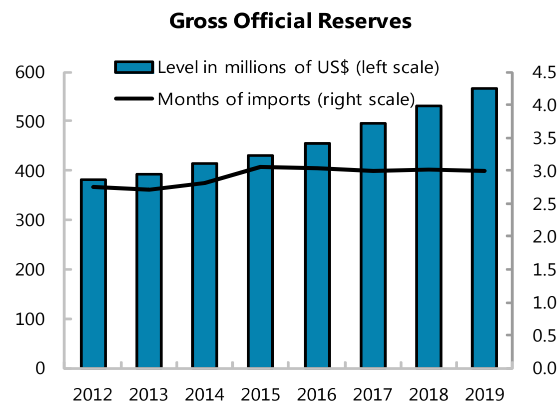
...while inflation will moderate, reflecting lower international food and fuel prices.



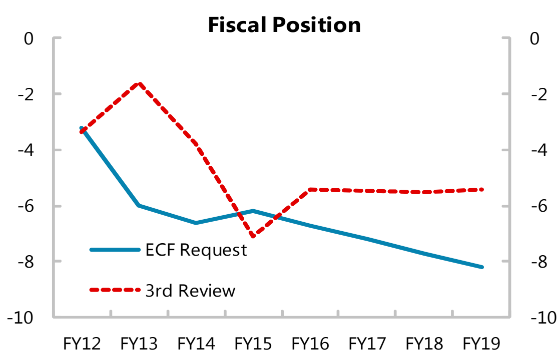
Strong export performance will contribute to narrow the trade and current account deficits...



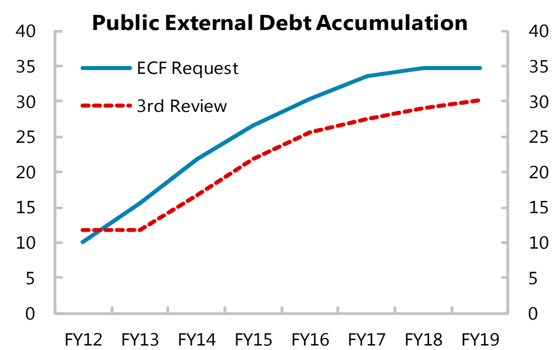
...maintaining reserves coverage at about three months of imports.



The fiscal deficit is widening at a slower pace than envisaged in the program reflecting capacity constraints...



...and debt is accumulating at a slower pace, also owing to delays in securing external financing.

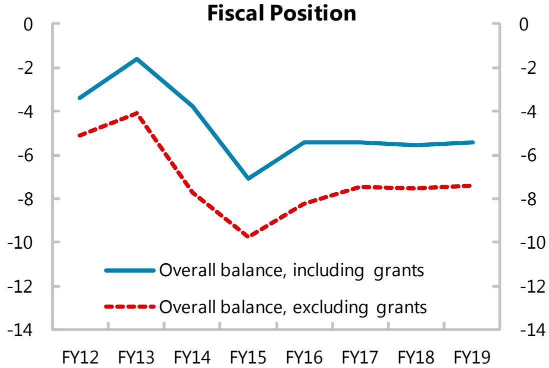


Sources: Liberian authorities and IMF staff estimates and projections.

Figure 6. Liberia: Medium-Term Fiscal Outlook, FY2012–19
(Percent of GDP)

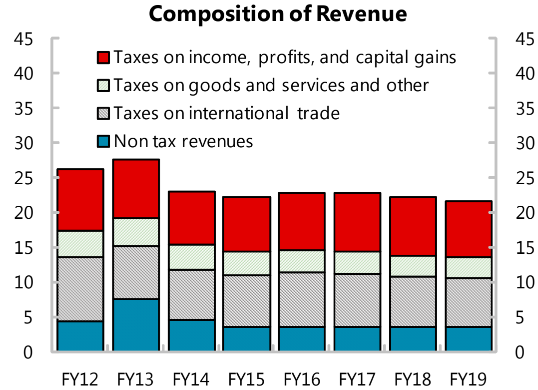
The fiscal balance is expected to widen, reflecting the scaling up of capital spending...

Fiscal Position



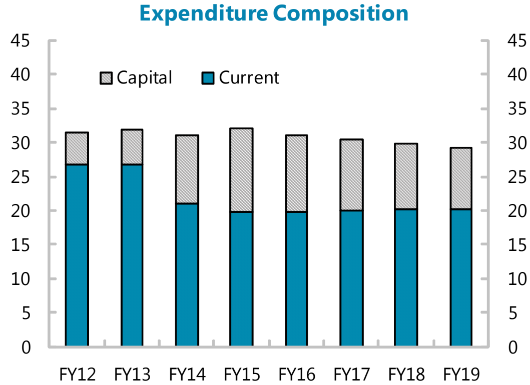
...while revenue remains stable over the medium term.

Composition of Revenue



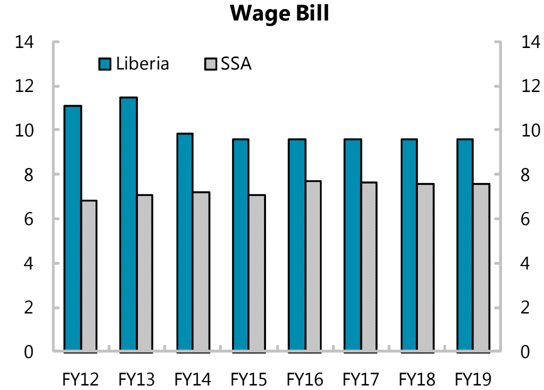
Current spending is expected to moderate to create fiscal space for capital spending...

Expenditure Composition



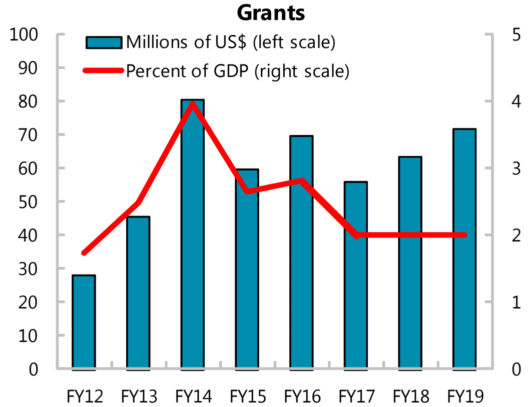
...while the wage bill declines, albeit still high by regional standards.

Wage Bill



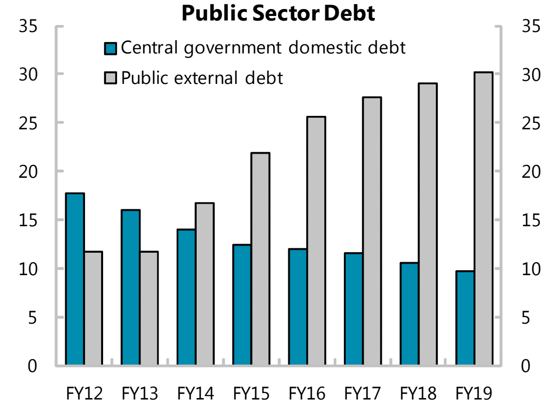
Grants will remain at stable levels.

Grants



The projected public debt accumulation is fully consistent with medium-term sustainability.

Public Sector Debt



Sources: Liberian authorities and IMF staff estimates and projections.

Table 1. Liberia: Selected Economic and Financial Indicators, 2012–17

	2012	2013		2014		2015	2016	2017
	Est.	Second Review	Est.	Second Review	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)							
National account and prices								
GDP at constant prices	8.3	8.1	8.7	6.8	5.9	6.8	7.2	9.4
GDP at constant prices excl. mining sector	3.4	5.1	4.3	7.5	6.1	7.1	7.2	7.2
GDP deflator (US dollars)	4.1	4.1	3.2	1.8	3.0	4.2	3.7	3.6
Nominal GDP (millions of U.S. dollars)	1,734	1,951	1,946	2,120	2,122	2,362	2,627	2,975
Consumer prices (average)	6.8	7.7	7.6	7.0	8.3	7.7	7.2	6.7
Consumer prices (end of period)	7.7	8.5	8.5	6.4	7.7	7.5	6.9	6.5
External sector								
Exports, f.o.b.	28.4	16.4	16.6	27.1	0.2	6.8	23.2	18.4
Imports, f.o.b	7.1	31.7	7.4	12.6	27.4	-9.5	-1.8	14.2
Terms of trade (deterioration -)	-29.6	4.5	0.8	-5.5	3.1	-5.1	-2.9	-0.1
Average exchange rate (local currency per U.S. dollar)	73.5	76.5	77.4	…	…	…	…	…
Nominal effective exchange rate (end of period, depreciation -)	-1.4	…	-12.2	…	…	…	…	…
Real effective exchange rate (end of period, depreciation -)	3.0	…	-6.6	…	…	…	…	…
Gross official reserves (months of imports) [1]	2.8	2.7	2.7	2.8	2.8	3.0	3.0	3.0
Gross official reserves (millions of U.S. dollars)	381	388	393	442	414	430	455	496
	(Percent of GDP)							
External sector								
Current account balance								
(including official grants)	-28.0	-48.0	-34.7	-51.4	-46.5	-35.4	-21.5	-24.2
(excluding official grants)	-83.3	-91.3	-84.3	-87.0	-89.2	-70.0	-51.2	-49.2
Trade balance	-33.9	-45.4	-30.1	-43.3	-42.4	-30.6	-21.3	-20.4
Exports, f.o.b.	27.6	28.6	28.7	33.4	26.4	25.3	28.0	29.3
Imports, f.o.b	-61.5	-74.0	-58.9	-76.7	-68.8	-55.9	-49.3	-49.8
Central government budget [2]								
Total revenue and grants	28.0	30.1	30.2	29.0	27.1	24.9	25.6	24.9
Of which: total revenue	26.3	27.6	27.7	24.9	23.1	22.3	22.8	22.9
Total expenditure and net lending	31.4	31.7	31.7	32.8	30.9	32.0	30.9	30.3
Of which: current expenditure	26.7	26.8	26.8	23.4	21.0	19.7	19.9	19.9
capital expenditure	4.7	4.9	4.9	9.3	9.9	12.3	11.0	10.4
Overall fiscal balance (including grants)	-3.4	-1.6	-1.6	-3.7	-3.8	-7.1	-5.4	-5.4
Overall fiscal balance (excluding grants)	-5.1	-4.1	-4.1	-7.9	-7.7	-9.7	-8.2	-7.4
Public external debt	11.8	10.6	11.8	14.9	16.7	21.9	25.6	27.6
Central government domestic debt	17.8	15.7	16.8	14.2	15.1	13.9	12.0	10.8

Sources: Liberian authorities and IMF staff estimates and projections.

[1] In months of next year's imports excluding imports related to UNMIL operations and FDI projects such as iron-ore concessions.

[2] Budget data expressed as fiscal year ending in June on a cash basis, i.e., 2012 = FY2011/12.

Table 2. Liberia: Balance of Payments, 2012–17
(Millions of U.S. dollars, unless otherwise indicated)

	2012	2013		2014		2015	2016	2017
	Prel.	Second Review	Est.	Second Review	Proj.	Proj.	Proj.	Proj.
Trade balance	-588	-887	-587	-918	-900	-723	-560	-607
Exports, f.o.b.	479	558	559	709	560	598	737	872
Of which: rubber	177	121	133	148	118	129	104	103
Of which: Iron	117	220	314	291	325	323	479	607
Imports, f.o.b	-1,067	-1,444	-1,146	-1,627	-1,460	-1,321	-1,297	-1,479
Services (net)	-744	-684	-736	-637	-707	-647	-505	-538
Income (net)	-262	-320	-374	-401	-345	-346	-343	-382
Of which: public interest payments due	-2	-2	-2	-3	-3	-5	-6	-8
Of which: IMF	0	0	0	-1	0	0	0	0
Current transfers	1,108	953	1,022	867	965	878	844	809
Of which: Donor transfers (net)	959	845	966	755	906	818	781	743
Current account balance	-486	-937	-675	-1,089	-987	-837	-564	-718
Current account balance, excluding grants	-1,445	-1,782	-1,640	-1,844	-1,893	-1,655	-1,344	-1,461
Capital and financial account (net)	448	944	664	1,144	977	836	586	772
Capital account (HIPC debt relief)	0	0	0	0	0	0	0	0
Financial account	448	944	664	1,144	977	836	586	772
Foreign direct investment (net)	339	313	436	322	330	341	329	378
Portfolio investment (net)	0	0	0	0	0	0	0	0
Other investment (net)	109	631	227	822	647	495	257	393
Official financing: medium and long term (net)	-3	46	54	100	106	132	139	158
SDR allocation	0	0	0	0	0	0	0	0
Disbursements	6	53	60	111	113	145	150	161
Amortization	-8	-8	-6	-11	-7	-13	-12	-3
Private financing (net)	112	585	173	722	541	363	118	236
Errors and omissions	0	0	0	0	0	0	0	0
Overall balance	-38	7	-11	54	-10	-1	22	54
Financing	38	-7	11	-54	10	1	-22	-54
Change in gross official reserves (increase -) [1]	20	-7	-12	-54	-21	-16	-25	-42
Net use of IMF credit and loans	18	22	23	19	31	17	3	-12
Disbursements	18	22	23	23	34	23	11	0
Of which: ECF financing	18	22	23	23	34	23	11	0
Repayments	0	0	0	-3	-3	-6	-9	-12
Exceptional financing	0	0	0	0	0	0	0	0
Memorandum items:								
Current account balance (percent of GDP)								
Including grants	-28.0	-48.0	-34.7	-51.4	-46.5	-35.4	-21.5	-24.1
Excluding grants	-83.3	-91.3	-84.3	-87.0	-89.2	-70.1	-51.2	-49.1
Trade balance (percent of GDP)	-33.9	-45.4	-30.1	-43.3	-42.4	-30.6	-21.3	-20.4
Donor transfers (net, percent of GDP)	55.3	43.3	49.6	35.6	42.7	34.6	29.7	25.0
Foreign direct investment (net, percent of GDP)	19.5	16.0	22.4	15.2	15.6	14.4	12.5	12.7
Public sector external debt (medium and long term) [2]								
Debt outstanding, including arrears	186	196	216	304	340	491	638	773
(percent of GDP)	11.8	10.6	11.8	14.9	16.7	21.9	25.6	27.6
Debt service charges (after relief)	13.4	8.3	7.3	12.2	8.6	17.2	31.2	22.1
(percent of exports of goods and services)	1.5	0.9	0.8	1.2	0.9	1.8	2.9	1.9
Terms of trade (2009=100)	121	126	122	119	125	119	116	115
Gross official reserves (months of imports) [3]	2.8	2.7	2.7	2.8	2.8	3.0	3.0	3.0

Sources: Liberian authorities and IMF staff estimates and projections.

[1] Includes SDR holdings.

[2] Recorded in fiscal years.

[3] In months of next year's imports excluding imports related to UNMIL operations and FDI projects such as iron-ore concessions.

Table 3. Liberia: Monetary Survey, 2012–15

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

	2012	2013		2014		2015
	Act.	Second Review	Act.	Second Review	Proj.	Proj.
(Central Bank Survey)						
Net foreign assets	220.9	232.2	204.4	276.0	213.6	223.3
Of which: IMF credit	-76.1	-97.7	-99.0	-117.9	-119.2	-137.5
CBL's gross foreign reserves	499.3	529.9	505.8	595.4	536.2	566.0
Commercial banks' US$ denominated deposits at CBL	118.0	128.4	112.7	139.5	122.2	136.0
CBL's gross official foreign reserves	381.3	401.5	393.1	455.8	414.0	429.9
CBL's net foreign exchange position [1]	216.3	237.4	237.3	269.5	253.5	253.2
Government US$ denominated deposits at CBL	80.7	58.8	44.1	58.8	27.1	22.1
Disbursements under the ECF program	76.1	97.7	99.0	117.9	119.2	137.5
Other liquid foreign liabilities	12.3	13.7	13.8	13.7	14.1	14.1
Valuation adjustments [1]	-4.2	-6.1	-1.0	-4.0	0.2	3.0
Net domestic assets	-45.7	-42.9	-47.0	-47.3	-73.9	-84.1
Net claims on government	225.2	204.5	210.9	196.4	215.2	218.8
Claims on other public sector	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	1.9	2.1	2.1	2.3	2.3	2.6
Claims on commercial banks	26.9	35.8	28.1	35.8	28.1	28.1
Other items (net)	-299.6	-285.3	-288.1	-281.8	-319.6	-333.6
Reserve money (RM)	175.2	189.3	157.4	228.7	139.7	139.2
Reserve money (billions of Liberian dollars)	12.7	15.2	13.0	19.0	12.6	13.2
(Depository Corporation Survey)						
Net foreign assets	350.6	327.2	343.8	362.8	290.9	287.7
Net domestic assets	282.2	345.0	338.2	383.0	428.1	493.1
Net domestic credit	520.2	533.4	605.5	577.5	703.8	764.2
Net claims on government	214.2	209.4	223.3	201.3	252.3	255.8
Claims on public enterprises	22.3	26.7	22.6	25.9	20.7	19.6
Claims on private sector	281.6	322.1	358.2	374.3	429.5	487.5
Claims on nonbank financial institutions	2.2	2.0	1.4	1.9	1.3	1.2
Other Items (Net)	-238.0	-188.4	-267.2	-194.5	-275.7	-271.1
Broad money (M2)	632.8	672.2	682.0	745.8	718.9	780.8
L$ component	171.9	171.0	187.5	201.2	196.9	199.7
L$ Currency in circulation	100.6	90.9	100.3	114.2	101.7	93.8
L$ denominated deposits	71.3	80.1	87.3	87.1	95.2	105.9
US$ component (deposits only)	460.9	501.2	494.4	544.6	522.1	581.0
Memorandum items:						
Broad money (annual change)	-1.4	6.2	7.8	11.0	5.4	8.6
L$ component as percent of broad money	3.3	-0.1	2.5	4.5	1.4	0.4
US$ component as percent of broad money	-4.7	6.4	5.3	6.5	4.1	8.2
Reserve money (annual change)	21.7	8.0	-10.2	20.8	-11.2	-0.4
Net credit to government (annual change)	1.6	-2.2	4.3	-3.9	13.0	1.4
Credit to private sector (annual change)	12.7	12.9	28.7	16.3	17.0	13.5
Velocity (GDP-to-M2)	2.7	2.9	2.5	2.8	3.0	3.0
Money multiplier (M2/RM)	3.6	3.6	4.3	3.3	5.1	5.6

Sources: Liberian authorities and IMF staff estimates and projections.

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

Table 4. Liberia: Financial Soundness Indicators, 2011–March 2014
(Percent)

			2013				2014
	Dec-11	Dec-12	March	June	Sept.	Dec.	March
Capital adequacy							
Regulatory capital to risk-weighted assets	22.8	22.7	21.9	25.0	23.7	24.9	20.5
Reported net capitalization	15.1	14.9	14.1	14.2	14.3	13.6	14.3
Asset quality							
Non-performing loans to total loans	20.8	24.9	20.3	18.8	19.1	14.8	14.5
Provisions to non-performing loans net of interest in suspense	53.2	49.0	67.1	55.3	48.5	54.2	73.3
Provisions to classified loans net of interest in suspense	45.1	44.0	59.9	46.5	43.4	45.5	52.5
Loan concentration (share of total)							
Agriculture	4.6	4.5	6.6	4.8	5.2	5.5	6.3
Mining and Quarrying	0.9	0.6	0.8	0.7	0.3	0.4	0.5
Manufacturing	2.0	1.5	2.2	1.6	1.5	1.4	1.9
Construction	8.2	6.9	9.6	9.6	10.9	10.8	15.6
Transportation, Storage, and Communication	8.4	7.1	8.9	5.9	9.1	8.4	8.5
Trade, Hotels, and Restaurants	41.2	44.0	40.0	42.8	38.3	40.0	45.2
Services	16.1	9.7	8.9	9.7	9.8	9.5	5.8
Personal	14.9	15.0	13.9	12.0	11.7	12.0	9.6
Government of Liberia	0.4	0.4	0.4	0.4	1.4	2.1	2.1
Public corporations	2.0	1.6	1.9	1.7	1.1	1.0	0.8
Others	1.4	8.6	6.8	10.6	10.8	9.0	3.7
Earnings and profitability							
Return on assets	-0.7	-0.1	-0.7	-0.7	-0.8	-0.5	-0.4
Return on equity	-4.7	-0.5	-4.8	-5.3	-5.8	-3.8	-2.6
Non-interest income to total income	57.9	55.3	54.0	57.9	56.0	55.5	48.9
Net interest margin over average assets	7.2	7.4	1.4	3.7	5.8	7.2	2.1
Liquidity							
Liquid assets to deposits and designated liabilities	44.0	45.9	44.8	40.2	32.1	36.1	25.4
Liquid assets to net assets[1]	54.0	34.0	32.9	29.6	23.5	26.2	18.8
Net loans to deposits	40.0	43.0	41.3	46.8	51.4	51.8	51.7

Sources: Liberian authorities and IMF staff estimates.

[1] There is a structural break in this data series in December 2012, due to the reclassification of some accounts.

Table 5. Liberia: Medium-Term Outlook, 2012–19

	2012	2013		2014		2015	2016	2017	2018	2019
	Est.	Second Review	Est.	Second Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change)										
National income										
Real GDP	8.3	8.1	8.7	6.8	5.9	6.8	7.2	9.4	9.9	8.8
Agriculture & fisheries	1.9	-0.7	-0.3	4.6	3.5	5.3	6.1	6.4	8.1	9.2
Forestry	1.7	2.6	0.5	6.0	2.0	6.5	6.5	6.1	6.1	6.1
Mining & panning	94.5	40.9	49.6	0.6	4.4	4.8	6.6	23.5	25.5	21.3
Manufacturing	3.1	8.9	9.1	10.5	9.6	10.1	10.1	9.1	8.7	6.1
Services	4.8	8.5	7.3	9.0	8.1	7.7	7.6	7.6	6.8	4.9
Real GDP excluding mining sector [1]	3.4	5.1	4.3	7.5	6.1	7.1	7.2	7.2	7.2	6.3
Nominal non-mining per capita GDP (U.S. dollar)	398.4	402.1	403.7	425.1	443.4	504.8	532.5	579.0	632.2	686.2
Prices										
GDP deflator	4.1	4.1	3.2	1.8	3.0	4.2	3.7	3.6	3.5	3.4
Consumer prices (annual average)	6.8	7.7	7.6	7.0	8.3	7.7	7.2	6.7	6.4	6.1
Consumer prices (end of period)	7.7	8.5	8.5	6.4	7.7	7.5	6.9	6.5	6.3	5.8
Population (millions)	4.0	4.1	4.1	4.2	4.2	4.3	4.4	4.5	4.6	4.7
(Percent share)										
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture & fisheries	31.9	26.1	26.4	25.7	24.5	24.4	22.7	21.7	21.2	21.1
Forestry	8.1	7.0	7.2	6.9	7.3	7.6	7.4	7.2	7.0	7.0
Mining & panning	9.5	16.7	16.2	16.8	13.3	8.9	11.5	13.0	14.4	15.4
Manufacturing	3.9	3.6	4.0	3.7	4.4	4.9	4.9	5.0	5.0	5.0
Services	46.7	46.6	46.3	47.0	50.5	54.2	53.4	53.1	52.4	51.6
(Percent of GDP, fiscal year)										
Central government operations										
Total revenue and grants	28.0	30.1	30.2	29.0	27.1	24.9	25.6	24.9	24.3	23.7
Total revenue	26.3	27.6	27.7	24.9	23.1	22.3	22.8	22.9	22.3	21.7
Grants	1.7	2.5	2.5	4.1	4.0	2.7	2.8	2.0	2.0	2.0
Total expenditure and net lending	31.4	31.7	31.7	32.8	30.9	32.0	31.0	30.3	29.8	29.1
Current expenditure	26.7	26.8	26.8	23.4	21.0	19.7	19.8	20.0	20.1	20.2
Capital expenditure	4.7	4.9	4.9	9.3	9.9	12.3	11.2	10.3	9.7	8.9
Overall fiscal balance, including grants	-3.4	-1.6	-1.6	-3.7	-3.8	-7.1	-5.4	-5.4	-5.5	-5.4
Overall fiscal balance, excluding grants	-5.1	-4.1	-4.1	-7.9	-7.7	-9.7	-8.2	-7.4	-7.5	-7.4
Public external debt	12.3	10.0	15.1	14.3	20.4	25.2	28.3	30.3	31.6	32.6
Central government domestic debt	17.8	15.7	16.1	14.2	14.0	12.4	12.1	11.6	10.5	9.7
(Percent, unless otherwise indicated)										
M2/GDP	36.5	34.4	35.0	35.2	33.9	33.1	33.0	32.8	32.5	32.3
Private sector credit/GDP	16.2	16.5	18.4	17.7	20.2	20.6	21.7	22.3	22.3	23.0
Velocity (GDP-to-M2)	2.7	2.9	2.5	2.8	3.0	3.0	3.0	3.0	3.1	3.1
Money multiplier (M2/M0)	5.5	6.2	5.8	5.6	5.9	6.7	6.7	7.0	7.3	7.7
(Percent of GDP, unless otherwise indicated)										
External sector										
Current account balance, including grants	-28.0	-48.0	-34.7	-51.4	-46.5	-35.4	-21.5	-24.1	-33.6	-27.7
Current account balance, excluding grants	-83.3	-91.3	-84.3	-87.0	-89.2	-70.1	-51.2	-49.1	-54.4	-45.3
Trade balance	-33.9	-45.4	-30.1	-43.3	-42.4	-30.6	-21.3	-20.4	-26.4	-21.4
Exports	27.6	28.6	28.7	33.4	26.4	25.3	28.0	29.3	28.2	29.1
Imports	-61.5	-74.0	-58.9	-76.7	-68.8	-55.9	-49.4	-49.7	-54.5	-50.5
Grants (donor transfers, net)	55.3	43.3	49.6	35.6	42.7	34.6	29.7	25.0	20.9	17.6
Gross official reserves (millions of U.S. dollars)	381.3	387.8	393.1	442.2	414.0	429.9	454.8	496.3	531.8	567.8
Months of imports of goods and services [2]	2.8	2.7	2.7	2.8	2.8	3.0	3.0	3.0	3.0	3.0

Sources: Liberian authorities and IMF staff estimates and projections.

[1] Chained weighted sectoral average growth rate.

[2] In months of next year's imports excluding imports related to UNMIL operations and FDI projects such as iron-ore concessions.

Table 6a. Liberia: Fiscal Operations of the Central Government, FY2012–17[1]

(Millions of U.S. dollars)

	FY2012	FY2013		FY2014		FY2015	FY2016	FY2017
	Act.	Second Review	Prel.	Second Review	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	458.9	555.1	555.1	591.0	551.4	558.9	637.7	696.5
Revenue	430.6	509.4	509.4	507.3	470.9	499.3	567.7	640.4
Tax revenue	357.0	369.5	369.5	409.0	378.3	399.0	464.3	522.6
Taxes on income, profits, and capital gains	145.4	156.8	156.8	169.4	158.0	172.1	198.8	231.9
Taxes on goods and services	53.7	67.0	67.0	72.3	67.7	66.4	70.8	75.8
Taxes on international trade	149.0	140.8	140.8	162.3	147.8	156.5	190.3	210.0
Other taxes	8.9	4.8	4.8	5.0	4.8	4.0	4.5	4.9
Non-tax	73.7	139.9	139.9	98.3	92.6	100.3	103.3	117.8
Grants	28.3	45.7	45.7	83.7	80.5	59.6	70.0	56.0
Expenditure and net lending	514.0	584.0	584.0	667.2	628.5	717.6	771.4	847.9
Current expenditure	437.6	493.0	493.0	477.2	427.0	441.9	496.9	556.5
Wages and salaries	181.4	211.3	211.3	218.0	200.0	214.2	238.3	267.6
Goods and services	113.9	161.5	161.5	136.2	129.0	128.8	143.3	160.9
Subsides and transfers	137.5	114.0	114.0	114.5	90.0	89.4	99.4	111.6
Interest	4.9	6.2	6.2	8.5	8.0	9.5	15.8	16.3
Capital expenditure	76.4	91.0	91.0	190.0	201.5	275.6	274.5	291.4
Foreign loan financed [2]	20.1	12.2	12.2	94.6	94.7	158.0	162.0	150.0
Domestic and grant financed	56.3	78.8	78.8	95.5	106.8	117.6	112.5	141.4
Of which: Mount Coffee (loans and grants)	0.0	0.0	0.0	54.5	54.5	54.5	57.7	32.5
Unallocated expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance								
Including grants	-55.1	-28.9	-28.9	-76.2	-77.1	-158.7	-133.7	-151.5
Excluding grants	-83.4	-74.6	-74.6	-159.8	-157.6	-218.3	-203.7	-207.5
Identified financing	55.1	28.9	28.9	76.2	77.1	158.7	133.7	151.5
External financing (net)	14.7	7.3	7.3	91.1	90.9	151.2	144.9	146.6
Loans	20.1	12.2	12.2	94.6	94.7	158.0	162.0	150.0
Project loans	20.1	12.2	12.2	94.6	84.7	140.0	162.0	150.0
Amortization (-)	-5.4	-4.9	-4.9	-3.4	-3.7	-6.8	-17.1	-3.4
Domestic financing (net)	40.4	21.6	21.6	-15.0	-13.9	7.5	-11.2	4.8
Central Bank of Liberia	43.5	5.9	5.9	-38.0	-38.0	0.0	0.0	0.0
Use of deposits	23.5	19.1	19.1	-30.0	-30.0	0.0	0.0	0.0
Gross borrowing	20.0	21.2	21.2	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	-34.4	-34.4	-8.0	-8.0	0.0	0.0	0.0
Deposit money banks	0.0	13.7	13.7	20.0	21.1	10.0	-10.0	5.9
Treasury bill purchases (net)	0.0	4.9	4.9	10.0	-1.0	0.0	0.0	28.0
Other lending to government (net)	0.0	8.8	8.8	10.0	22.1	10.0	-10.0	-22.1
Other (including repayment of arrears)	-3.0	2.1	2.1	3.0	3.0	-2.5	-1.2	-1.1
Unidentified financing/float	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Iron-ore related revenue	44.6	38.3	38.3	47.4	38.0	43.8	58.4	74.2
Total public external debt [3]	192.8	195.9	216.4	303.8	340.4	490.6	638.5	773.3
Central government domestic debt [4]	291.1	289.7	309.3	288.3	307.1	310.9	299.2	303.6
Of which: foreign currency denominated	278.3	277.6	297.4	277.0	296.4	301.0	289.7	294.6
Basic balance [5]	21.3	62.1	62.1	113.8	124.4	116.9	140.8	140.0
Current balance	-7.0	16.4	16.4	30.2	43.9	57.3	70.8	83.9
Primary balance, including grants	-50.3	-22.7	-22.7	-67.7	-69.1	-149.1	-117.9	-135.1
Fiscal year nominal GDP	1,636.4	1,842.6	1,840.1	2,035.7	2,034.1	2,242.3	2,494.5	2,801.1

Sources: Liberian authorities and IMF staff estimates and projections.

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

[2] Approximately 50 percent of on-budget loan-financed capital expenditure substitutes for hitherto off-budget, grant-financed expenditure.

[3] Includes debt to IMF.

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

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

Table 6b. Liberia: Fiscal Operations of the Central Government, FY2012–17[1]

(Percent of GDP)

	FY2012	FY2013		FY2014		FY2015	FY2016	FY2017
	Act.	Second Review	Prel.	Second Review	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	28.0	30.1	30.2	29.0	27.1	24.9	25.6	24.9
Revenue	26.3	27.6	27.7	24.9	23.1	22.3	22.8	22.9
Tax revenue	21.8	20.1	20.1	20.1	18.6	17.8	18.6	18.7
Taxes on income, profits, and capital gains	8.9	8.5	8.5	8.3	7.8	7.7	8.0	8.3
Taxes on goods and services	3.3	3.6	3.6	3.6	3.3	3.0	2.8	2.7
Taxes on international trade	9.1	7.6	7.7	8.0	7.3	7.0	7.6	7.5
Other taxes	0.5	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Non-tax	4.5	7.6	7.6	4.8	4.6	4.5	4.1	4.2
Grants	1.7	2.5	2.5	4.1	4.0	2.7	2.8	2.0
Expenditure and net lending	31.4	31.7	31.7	32.8	30.9	32.0	30.9	30.3
Current expenditure	26.7	26.8	26.8	23.4	21.0	19.7	19.9	19.9
Wages and salaries	11.1	11.5	11.5	10.7	9.8	9.6	9.6	9.6
Goods and services	7.0	8.8	8.8	6.7	6.3	5.7	5.7	5.7
Subsides and transfers	8.4	6.2	6.2	5.6	4.4	4.0	4.0	4.0
Interest	0.3	0.3	0.3	0.4	0.4	0.4	0.6	0.6
Capital expenditure	4.7	4.9	4.9	9.3	9.9	12.3	11.0	10.4
Foreign loans financed [2]	1.2	0.7	0.7	4.6	4.7	7.0	6.5	5.4
Domestic and grant financed	3.4	4.3	4.3	4.7	5.3	5.2	4.5	5.0
Of which: Mount Coffee (loans and grants)	0.0	0.0	0.0	2.7	2.7	2.4	2.3	1.2
Unallocated expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance								
Including grants	-3.4	-1.6	-1.6	-3.7	-3.8	-7.1	-5.4	-5.4
Excluding grants	-5.1	-4.1	-4.1	-7.9	-7.7	-9.7	-8.2	-7.4
Identified financing	3.4	1.6	1.6	3.7	3.8	7.1	5.4	5.4
External financing (net)	0.9	0.4	0.4	4.5	4.5	6.7	5.8	5.2
Loans	1.2	0.7	0.7	4.6	4.7	7.0	6.5	5.4
Project loans	1.2	0.7	0.7	4.6	4.2	6.2	6.5	5.4
Amortization (-)	-0.3	-0.3	-0.3	-0.2	-0.2	-0.3	-0.7	-0.1
Domestic financing (net)	2.5	1.2	1.2	-0.7	-0.7	0.3	-0.5	0.2
Central Bank of Liberia	2.7	0.3	0.3	-1.9	-1.9	0.0	0.0	0.0
Use of deposits	1.4	1.0	1.0	-1.5	-1.5	0.0	0.0	0.0
Gross borrowing	1.2	1.2	1.2	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	-1.9	-1.9	-0.4	-0.4	0.0	0.0	0.0
Deposit money banks	0.0	0.7	0.7	1.0	1.0	0.4	-0.4	0.2
Treasury bill purchases (net)	0.0	0.3	0.3	0.5	0.0	0.0	0.0	1.0
Other lending to government (net)	0.0	0.5	0.5	0.5	1.1	0.4	-0.4	-0.8
Other (including repayment of arrears)	-0.2	0.1	0.1	0.1	0.1	-0.1	0.0	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Iron-ore related revenue	2.7	2.1	2.1	2.3	1.9	2.0	2.3	2.6
Total public external debt [3]	11.8	10.6	11.8	14.9	16.7	21.9	25.6	27.6
Central government domestic debt [4]	17.8	15.7	16.8	14.2	15.1	13.9	12.0	10.8
Of which: foreign currency denominated	17.0	15.1	16.2	13.6	14.6	13.4	11.6	10.5
Basic balance [5]	2.6	3.4	3.4	5.6	6.1	5.2	5.6	5.0
Current balance	-0.9	0.9	0.9	1.5	2.2	2.6	2.8	3.0
Primary balance, including grants	-6.1	-1.2	-1.2	-3.3	-3.4	-6.7	-4.7	-4.8
Fiscal year nominal GDP (millions of U.S. dollars)	1,636.4	1,842.6	1,840.1	2,035.7	2,034.1	2,242.3	2,494.5	2,801.1

Sources: Liberian authorities and IMF staff estimates and projections.

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

[2] Approximately 50 percent of on-budget loan-financed capital expenditure substitutes for hitherto off-budget, grant-financed expenditure.

[3] Includes debt to IMF.

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

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

Table 7. Liberia: Schedule of Disbursements Under the ECF Arrangements, 2012–15

Amount (Total: SDR 51.68 million)	Date of Availability[1]	Conditions for Disbursement[2]
SDR 7.382 million	November 19, 2012	Executive Board approval of the three-year ECF arrangement
SDR 7.382 million	July 3, 2013	Executive Board completion of the first review under the three-year ECF arrangement
SDR 7.382 million	December 11, 2013	Executive Board completion of the second review under the three-year ECF arrangement
SDR 7.382 million	July 3, 2014	Executive Board completion of the third review under the three-year ECF arrangement
SDR 7.382 million	November 15, 2014	Executive Board completion of the fourth review under the three-year ECF arrangement
SDR 7.382 million	May 15, 2015	Executive Board completion of the fifth review under the three-year ECF arrangement
SDR 7.388 million	November 15, 2015	Executive Board completion of the sixth review under the three-year ECF arrangement

Source: IMF staff estimates.

[1] With respect to completed review, the date indicated refers to the date of the Executive Board meeting.

[2] In addition to the conditions that normally apply to an ECF arrangement.

Appendix I. Letter of Intent

Monrovia, June 17, 2014
Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C.

Dear Madame Lagarde,

The attached Memorandum of Economic and Financial Policies (MEFP) outlines the implementation of Liberia's economic program supported by the Extended Credit Facility (ECF) through March 31, 2014, and summarizes recent economic and financial policy actions and the government of Liberia's commitment for the rest of 2014 and for 2015. The government remains fully committed to meeting the objectives of the program, as well as the specific targets set out in the MEFP.

Liberia continues to make good progress in implementing its ECF-supported economic program aimed at supporting prudent macroeconomic policies and structural reforms that underlie the government's Agenda for Transformation and Liberia Rising 2030. Economic growth was strong in 2013 and the outlook for 2014 is positive. We are confident that the benefits of our economic strategy will become increasingly evident over time, as a more stable macroeconomic environment, well-developed fiscal institutions, and improved business climate will attract new investments and result in durable job creation and increased prosperity.

Program performance has improved relative to the last review despite a number of challenges. We met five out of the six performance criteria (PC), and are requesting a waiver for one missed PC—the floor on revenue collection. The revenue floor was missed due to a change in the income tax reporting base, which has since been reversed; the ongoing moratorium in the forestry sector; and the late approval of the budget. To offset these losses, we have put in place an aggressive plan to curb tax evasion. Most indicative targets (IT) have been met, with the exception of the IT on external borrowing as we were able to secure additional concessional financing for priority infrastructure projects. We met four out of five structural benchmarks (SB) for the third review, implementing with a minor delay the daily sweeping of government accounts. We are making solid progress towards the end-June 2014 SBs and have already completed the cleanup of the payroll, which allowed us to remove 4,000 ghost workers from the payroll.

Fiscal performance through end-December 2013 has been broadly in line with program objectives. Current and on-budget capital spending has been contained owing to fiscal consolidation measures adopted by the government to cover the previous years' expenditure overruns and revenue shortfalls. We have implemented additional measures to improve revenue collection, including by collecting fees and dividends owed by state entities and ensuring tax compliance by concession companies. Our budget for FY2015 focuses on reducing current spending to prioritize transformative public investments in key areas including energy, roads, ports, security, technology, health, and education.

We remain committed to continue to strengthen the budget process and improve public financial management. During the course of the fiscal year it became apparent that the Ministry of Public Works (MPW) had committed to a number of road contracts with vendors without there being the necessary budgetary allocations. The Ministry of Finance is now working with MPW, the General Auditing Commission (GAC) as well as a technical committee that was instituted by the President, to investigate the issue and, where appropriate, make payments to vendors.

In particular, the President has authorized the GAC to conduct a full financial audit of the extra-budgetary commitments for road projects at the Ministry of Public Works, and the GAC has initiated its audit (prior action). The GAC is finalizing a full financial audit of the MPW for FY2010–FY2012, and its recommendations will be communicated to Fund staff. No further payments will be made on any road contracts until both these audits are completed. The Minister of Finance has also mandated the GAC to review contracting and procurement practices in other key Ministries (prior action). The technical committee established by the President will comprise a group of civil engineers reporting to the chairman of the Senate's Public Works Committee, and will verify that the work performed was in accordance with the contract terms.

To avoid the recurrence of unfunded liabilities, we have published an official release from the Minister of Finance reminding all stakeholders that all government contracts ought to comply with the Public Finance Management Law and its accompanying Regulations, as well as with the Public Procurement and Concession Act and must have corresponding budgetary appropriations.

To improve coordination with Ministries and Agencies (M&As) during the budget process, we will ensure that, each year, all ongoing projects are reviewed by the Project Management Office (PMO) to advise on the performance of the projects and justification for continued funding. New projects will only be funded after adequate allocations are made for existing projects. By end-June 2014, we will publish the FY2016 budget calendar which will, inter alia, ensure that discussions of the strategic orientations of the budget between the Ministry of Finance and M&As take place before the end of December 2014 (end-June 2014 structural benchmark). The PMO will establish a database of all existing government investments which clearly identifies ongoing projects (end-December 2014 benchmark).

On the basis of the performance registered in implementing the economic program and of the strength of our future policy commitments we request that the third review under the ECF arrangement be completed and the fourth disbursement in the amount of SDR 7.382 million be approved. In completing the third review, we are requesting a waiver for the nonobservance of the PC on the floor on total revenue collection of the central government, on the basis of the strong corrective measures implemented to boost revenue collection. In addition, the government would like to request modification and approval of PCs and new SBs that have been agreed with Fund's staff for end-June and end-December 2014. In particular, we request modifications of the floor on foreign reserves for end-June and end-December, the definition of gross central bank financing of the government, and Indicative Target on external borrowing to accommodate additional concessional financing for priority infrastructure projects. Understandings have also been reached regarding changes to the TMU in order to introduce the new uniform discount rate for assessing the concessionality of external borrowing and correct other definitional issues.

We believe that the economic and financial policies set forth in the attached MEFP provide an adequate basis for achieving the objectives and targets of our program, but we will take any additional measures that may become necessary for this purpose in close consultation with IMF staff on the adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. We will provide the Fund with all information necessary to monitor implementation of the program supported by the ECF in a timely manner as outlined in the TMU.

We consent to the publication on the IMF website of this letter, the accompanying MEFP, TMU, and the related staff report for the third review under the ECF.

Sincerely yours,

____________/s/____________	____________/s/____________
Amara Konneh Minister of Finance Ministry of Finance	Joseph Mills Jones Executive Governor Central Bank of Liberia

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment 1. Memorandum of Economic and Financial Policies of the Government of Liberia for FY2014 and FY2015

INTRODUCTION

1. **The Government of Liberia remains committed to achieving sustainable and inclusive economic growth and consolidating the country's macroeconomic stability**. This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments since the second review and performance under the Extended Credit Facility (ECF) arrangement approved by the IMF Board on November 19, 2012. It also updates macroeconomic policies and targets for the remaining of FY2014 (through June 2014) and for FY2015 (July 2014 to June 2015).

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2. **Recent economic developments are broadly in line with the program and the short-term outlook is positive**.

- *Real GDP growth is estimated at 8.7 percent in 2013. CPI inflation increased to 9.8 percent as of end-April (year-on-year) reflecting the pass-through of a 20.7 percent depreciation of the Liberian dollar since December 2012*. GDP growth is projected to decline to 5.9 percent in 2014, as mining production levels off temporarily. However, non-mining GDP is projected to grow by 6.1 percent, driven mainly by increased activity in the construction sector. Inflation is expected to moderate somewhat to 7.7 percent in 2014 as international food and fuel prices decline.

- *Fiscal performance through end-December 2013 has been broadly in line with program objectives, in spite of shortfalls in revenue collection totaling 0.7 percent of GDP*. Current and on-budget capital spending remained subdued owing to fiscal consolidation measures adopted by the government to cover the previous years' expenditure overruns and revenue shortfalls. The overall fiscal deficit is projected to widen to 3.8 percent of GDP in FY2014 as envisaged at the time of the 2nd ECF review.

- *The current account deficit is projected to have widened to 34.7 percent of GDP in 2013 (28 percent in 2012)*. Capital goods imports slowed down in the second half of 2013 reflecting delays in public investment, but are expected to recover in 2014 as implementation of some large projects continues (e.g., hydro and HFO power-plants). Gross foreign reserves reached 2.7 months of essential imports cover.

- *Monetary and financial conditions remain favorable*. Credit to the private sector grew by 28 percent at end-March 2014 (y/y) while nonperforming loans declined to 14.5 percent (from 19.1 percent in September 2013) due to increased efforts for debt recollection. Bank profitability improved gradually but remained low reflecting high operational costs.

- *The main risks to the outlook stem from* (i) the October mid-term legislative elections which could complicate discussions of the FY2015 budget; (ii) delays in public investment reflecting a tighter-than-anticipated budget envelope and continued low implementation capacity; and (iii) further declines in international rubber and iron ore prices.

PROGRAM PERFORMANCE

3. **Program performance has improved relative to the last review**. Five out of the six quantitative performance criteria (PC) and three out of the four indicative targets (IT) under the program through end-December 2013 were met (Table 1).

- External budget support fell short of programmed amounts by US$22.2 million, due in part to late ratification by the Legislature of a budget support loan, triggering the program adjustor for the PCs on reserves and central bank financing of the government. Nonetheless, we reached the (unadjusted) reserves target without resorting to additional central bank financing, owing to the return to the central bank of maturing term placements in local banks, higher U.S. dollar sales by the government, and lower foreign exchange intervention.

- The PC on the floor on revenue collection of the central government (core revenues, i.e., excluding contingent revenue and grants), was missed by US$15.8 million or 0.7 percent of GDP. The shortfall was due to a change in the income tax reporting base from presumptive to actual, ongoing legal issues in the forestry sector, and slower than expected domestic economic activity as a result of NGOs' and UNMIL's drawdown. In response, we have reversed the income tax measure and launched an aggressive plan aimed at tackling tax evasion and smuggling.

- The indicative ceiling on gross external borrowing by the public sector was missed by US$32.7 million as the new external borrowing agreements for priority infrastructure projects ratified by the Legislature in the first half of FY2014 amounted to US$150 million. Given that the terms of the new borrowing are favorable, public debt remains on a sustainable path.

- Six out of ten indicative targets for end-September 2013 were met. The missed ITs include the floor on revenue collection of the central government and the floor on CBL's net foreign exchange position. As of end-March 2014, seven out of the ten IT have been met, including the floor on the CBL's net foreign exchange position (Table 1).

4. **We have continued to make strides in implementation of our structural reform agenda**. Four out of five structural benchmarks (SB) were met on time, and the daily sweeping of the government accounts was implemented with a minor delay (Table 2). We are also making good progress toward the end-June 2014 benchmarks (Table 3):

- The payroll clean-up process was completed by end-March 2014. About 4,000 ghost workers were permanently removed from the payroll, which will allow for significant savings on the public sector wage bill starting in FY2015.

- The migration of credit-financed projects onto the government's Integrated Financial Management Information System (IFMIS) has already commenced, with remaining technical issues expected to be resolved by June 2014.

- The success of the daily sweeping means that the launch of the pilot phase of the Treasury Single Account (TSA) for the seven largest ministries will be possible for the CBL-based accounts. We have already closed 76 dormant accounts and plan to continue to consolidate accounts with small balances. The government is producing on a monthly basis a report reconciling the government's financial information with the government's bank accounts at the CBL, with a view to expanding this to also include accounts held at commercial banks by end-June 2014.

- We also expect to have published national accounts for the period 2008 to 2013 by end-June 2014, based on the National Accounts Annual Survey.

- The CBL has prepared and submitted the draft Insurance Act to the Office of the President for onward submission to the Legislature for enactment into law in early January 2014. Efforts are being made to ensure that the Act is submitted to the Legislature in a timely manner.

OBJECTIVES AND ECONOMIC AND FINANCIAL POLICIES FOR 2014–15

5. **The medium term outlook remains favorable, with broadly balanced risks**. We estimate that the economy could grow at an annual average of 8 percent over the medium term reflecting the increase in iron-ore activity as new production comes on stream. The scaling-up of production at the Bong and Yekepa mines is now scheduled to start in 2017 and onward, while other iron-ore mining projects could also start production at a similar time. In parallel, non-mining activity is projected to accelerate further in 2015–17, as public investment picks up, the forestry sector recovers, and agricultural productivity increases. The current account deficit is projected to gradually narrow over the medium term reflecting the increase in iron-ore exports and the expected unwinding of the public investment program.

6. **The Government has taken decisive measures to remove remaining bottlenecks in the forestry sector and to boost agricultural productivity to support inclusive growth in the non-mining sector**. In particular, we have signed memorandums with forestry companies, authorizing them to rehabilitate primary roads in exchange for clearance of their tax arrears. This has allowed forestry companies to commence logging activities and is expected to boost economic activity and revenue collection. A one-stop shop at the Forestry Development Authority (FDA) has been created to reduce export processing time. In addition, about US$36 million in recently-ratified credits are being invested to boost agricultural productivity. Palm oil concessionaires are also expanding their activity, creating thousands of new jobs. The Ministry of Agriculture is working with concessionaires and civil society partners to operationalize out-grower schemes, which will provide training and financing to independent farmers.

A. Fiscal Policy

7. **Fiscal policy continues to focus on creating fiscal space for implementation of our Agenda for Transformation (AfT)**. For the remainder of FY2014, we will continue to contain current spending, through savings in wages and salaries and compression of spending on goods and services. In addition, we will aggressively pursue efforts to compensate for part of the revenue shortfall, including by enforcing collection of taxes and fees owed by individual taxpayers and concession companies. As the result, the overall fiscal deficit for end-June 2014 is projected to remain in line with our initial target of about 3.8 percent of GDP (Text Table 1).

Text Table 1. Government Sources and Uses of Funds
(million U.S. dollars)

	Est. outturn FY2014	Proj. FY2015
Sources	**644**	**694**
Tax and non-tax	471	499
Grants	48	27
Borrowing (WB-Domestic Banks)	117	158
T-bills and domestic borrowing	8	10
Uses	**644**	**694**
Recurrent spending	**445**	**451**
Salaries and wages	200	214
Interest payments	9	10
Goods and services	129	129
Transfers and grants	90	89
Amortization	18	9
Previous years' overdraft	**30**	**0**
Capital spending	**169**	**243**

Source: Ministry of Finance and IMF staff estimates.

8. **Additional revenue measures are expected to yield about US$12 million (0.6 percent of GDP) by the end of the fiscal year**. We plan to recover an amount of about US$11.5 million in back taxes from the forestry sector, enforcement of concession agreements in the petroleum sector and collection of fees and dividends owed by state entities (Text Table 2). In February 2014, we also adopted a series of measures to enhance tax compliance and reduce smuggling, including:

- Spot verification of taxpayers to validate their payments. With this action, we expect improvement in collection of taxes on income, goods and services.
- A major crackdown on delinquent taxpayers, including publishing the list of persons, businesses and public institutions with outstanding tax obligations; and initiating legal proceedings against them to recover taxes;
- Strengthening enforcement of internal controls at the systems level;
- Undertaking an anti-smuggling operation, on the customs side, by monitoring of transshipment through the border, and conducting rigorous post clearance audits to close revenue leakages resulting from dishonesty among some tax payers.

Text Table 2. Measures to Increase Revenues
(million U.S. dollars and percentage of GDP)

	Proposed measures	
	Million US$	Percentage of GDP
Core revenue, excluding grants	11.5	0.6
Tax revenue	0.0	0.0
Non-tax revenue	11.5	0.6
Forestry [1/]	5.0	0.2
Petroleum: SDF and surface rental [2/]	3.0	0.1
Maritime [3/]	1.5	0.1
Ministries and agencies [4/]	2.0	0.1

Sources: Ministry of Finance and IMF staff calculations.
[1/] Requires collecting US$5 million from back taxes (US$33 million).
[2/] Requires enforcing concession agreements with petroleum companies.
[3/] Requires information verification.
[4/] Requires ensuring M&As transfer fees on a timely basis.

9. **We remain committed to continue to strengthen the budget process and to ensure full implementation of the Public Financial Management (PFM) and Procurement and Concessions Acts**. During the course of the fiscal year it became apparent that the Ministry of Public Works (MPW) had committed to a number of road contracts with vendors without there being the necessary budgetary allocations. An initial thorough review has identified a list of

43 contracts totaling US$121.8 million, dated between 2010 and 2013, and for which payments of US$72.5 million have already been made out of the current and previous years' budgets. Out of the total amount outstanding of US$49.2 million, claims on the FY2014 budget for works already completed and verified by the Ministry of Public Works amount to US$19 million. Eight (8) additional civil works road projects totaling US$24.7 million have been identified by the Ministry of Public Works as potential "off-budget exposure" to the Government of Liberia, bringing the total outstanding amount to US$73.9 million.

10. **The Government is taking decisive actions to verify outstanding claims and ensure that commitments outside of the budget process do not occur again**. In particular:

a. The public officials responsible for signing some of these contracts at the Ministry of Public Works have been dismissed. The Ministry of Finance is now working with MPW, and General Auditing Commission (GAC) as well as a committee that was instituted by the President, to investigate the issue and, where appropriate, make payments to vendors. The President has authorized the GAC to conduct a full financial audit of the extra-budgetary commitments for road projects at the Ministry of Public Works, and the GAC has initiated its audit (prior action). The GAC is finalizing a full financial audit of the MPW for FY2010–FY2012 and its main recommendations will be communicated to Fund staff. No further payments will be made on any road contracts until both audits are completed.

b. Similarly, the Minister of Finance has requested the GAC to review contracting practices in other key Ministries, including the Ministry of Education, Ministry of Health, Ministry of Agriculture, Ministry of Lands, Mines, and Energy, and the Ministry of Commerce (prior action). That review will be conducted in the context of the FY2013 audit of these entities and will help us identify the required course of action to ensure and uphold the integrity of our national budget.

c. The technical committee established by the President will comprise a group of civil engineers reporting to the chairman of the Senate's Public Works Committee, and will verify that the work performed was in accordance with the contract terms. We have communicated the finalized terms of reference for the technical investigation to Fund staff. However, work on the technical investigation is expected to be delayed as some members of the technical committee are believed to be former employees of MPW and clients of some of the contractors in question. The President is expected to replace them shortly with independent individuals.

d. In the mid-year fiscal outturn report published on March 27, 2014 and submitted to the Legislature, we have communicated the challenges posed by these extra-budgetary pressures as well as the revenue shortfall and the steps taken by the government to mitigate these pressures. Pending the results of the external evaluations, we have included in the draft FY2015 budget a provision for up to US$17 million to cover payments due under these road projects. If the provision proves to be insufficient, we will identify savings on non-priority spending and submit a supplementary budget to the Legislature. Once verified, remaining amounts outstanding will be brought on budget in subsequent fiscal years as the projects are being completed.

e. Following discussion with other Ministers, commercial banks and vendors, we published on May 28, 2014 an official release from the Minister of Finance indicating that no contract will constitute a government commitment unless signed by the Minister of Finance, the Minister or head of the relevant agency, and countersigned by the Minister of Justice, as required under the PPCC Act. The letter indicates that any Ministry or Agency, vendor or commercial bank that issues or accepts an invalid contract will be subject to sanctions under section 47 of the PFM Act.

11. **We will continue to strengthen the oversight of investment projects and the role of the Project Management Office (PMO)**. Insufficient time allocated for consultation between Ministries and Agencies (M&As) and the Ministry of Finance has resulted in inadequate budgetary allocations for ongoing projects in the FY2014 budget. To remedy this situation, we will ensure that, each year, all ongoing national priority and sector projects are reviewed by the PMO, in conjunction with the Liberian Development Alliance (LDA) monitoring and evaluation team, to advise on the performance of the projects, any variations in project cost, emerging and potential issues to be addressed, and justification for continued funding. In order to maintain budget discipline, funding for new projects will only be made available after existing projects are allocated sufficiently. Starting with the FY2016 budget, we will attach to the draft budget submitted to the Legislature a list of all ongoing projects for which multi-year allocations will be required to ensure adequate funding for these projects.

12. **We are taking first steps to improve the planning environment for the FY2016 budget**. By end-June 2014, we will (i) publish the FY2016 budget calendar which will, inter alia, ensure that discussions of the strategic orientations of the budget between the Ministry of Finance and M&As take place before the end of December 2014 (end-June 2014 structural benchmark); and (ii) the PMO, in conjunction with the LDA, will establish a database of all existing government and donor investment which clearly identifies ongoing projects by December 2014 (new structural benchmark).

13. **The draft Budget for FY2015 remains fully aligned with our Agenda for Transformation**. The resource envelope for the FY2015 budget is estimated at US$694 million which includes a conservative estimate of US$499 million in government core revenue. We plan to reduce current spending, by up to 1.3 percent of GDP, in order to create fiscal space for priority infrastructure projects initiated in FY2014, as well as additional expenditure on the security sector in order to compensate for UNMIL drawdown. For the first time the resource envelope includes the earmarked loans that were previously treated as "off-budget", i.e., it brings them "on-budget". Including them as part of the budget PSIP expenditure provides a more accurate fiscal picture, in line with international standards, and better reflects the government's efforts and resources raised to address development needs (see Text Table 1). To ensure prompt execution, the government will require all M&As to submit cash and procurement plans by the start of the fiscal year for both recurrent and PSIP expenditure (structural benchmark). The Ministry of Finance will release allotments on a quarterly basis once the budget is approved by the Legislature to ensure that the budget can be executed expediently.

B. Structural Fiscal Reforms Agenda

14. **We are committed to continue strengthening public financial management**. In particular:

- We will continue to strengthen the budget process with the implementation of the third Medium-Term Expenditure Framework (MTEF) as part of the FY2015 budget. As a result of lessons learned from the first two MTEF budgets, internal coordination in the Ministry of Finance has been improved, with the establishment of a budget working group and prioritization of expenditure items has been enhanced through earlier budget discussions at Cabinet level and the vetting of sector projects by the Project Management Office. In addition, the government will work with the legislature to discuss the priorities for FY2015 in advance of the submission of the draft budget in order to facilitate its timely passage.

- IFMIS is now operational in 19 M&As, and will be rolled out and operational within 17 additional M&As by end-September 2014, with M&As able to use the system to generate budget execution reports. Government will be financing the rollout and has received PPCC clearance for the contract.

- The successful implementation of first monthly and now daily sweeping of balances in government accounts at the Central Bank of Liberia (CBL) for key ministries and agencies brings us closer to the effective operation of the Treasury Single Account approach with zero-balance accounts for all ministries and agencies at the Central Bank of Liberia (structural benchmark). The Ministry of Finance and CBL are now meeting on a weekly basis at a technical level to discuss liquidity management and will also commence senior bilateral meetings on a monthly basis (structural benchmark).

- The government is producing on a monthly basis a report reconciling the government's financial information with the government's 5 main bank accounts at the CBL, with a view to expanding this over time to include all government accounts at the CBL and government accounts held at commercial banks.

- The legislation merging the Ministry of Finance with the Ministry of Planning and Economic Affairs to create the Ministry of Development Planning has been passed by the legislature and the new ministry will be operational from 01 July 2014. Work to establish the skills and competencies needed by staff is ongoing, with redundancy and severance packages to be made available where appropriate.

- The public sector modernization project, financed jointly by SIDA, the World Bank and USAID, will improve pay and performance management in a number of ministries and strengthen payroll management across the civil service, with a view to retaining well-trained, professional staff, improving organizational productivity, improving payroll control and helping to constrain the wage bill.

- The Public Accounts Committee commenced the review of a backlog of some 85 audit reports. To date, three public hearings have been performed. The GAC has now commissioned 55 audits in total, of which 9 were audits of the counties, and issued 2 audit reports of ministries and agencies to the legislature and the executive branches of government.

- The State Owned Enterprises (SOE) Unit has received annual performance reports from all SOEs, including the 8 largest SOEs, for the period up to December 2013. Guidelines for SOEs reporting & accounting standards have been communicated by the Finance Minister and adopted, along with a corporate social responsibility framework. A training program is being developed by the SOE Unit for finance managers of all active SOEs.

15. **We will continue to modernize tax administration**.

- *Good progress is being made towards the launch of the new Liberia Revenue Authority (LRA)*. The Commissioner-General, two deputy Commissioners-General, and the Board of the LRA have been recently appointed. The human resource management component of the LRA implementation is also progressing well which will create and promote a professional and accountable institution. Despite some delays in the procurement of furniture and equipment, we expect the LRA to be operational by July 1, 2014.

- *The Petroleum and Mining Acts have undergone broad consultation with the public*. Following the passage of the Petroleum Act by the senate, the House subsequently engaged in additional consultations across the country; this process has now concluded. A draft of the proposed Mining Act has been completed, with consultation ongoing.

- *The Natural Resource Tax Unit has continued to build its capacity and is now providing technical support on concession issues*. Training has been conducted on transfer pricing, petroleum financial modeling and contract negotiation. The Unit has been able to support negotiations as part of the Inter-Ministerial Technical Committee on Concessions and revenue collection through support to auditors in the Department of Revenue on concession-specific issues. The Unit will be part of the Liberian Revenue Authority as of July 1, where it will continue to provide technical expertise.

- *Over the medium term, we will continue to make progress towards automating the tax payment system*. Ongoing efforts include the deployment of a Standardized Integrated Tax Administration System (SIGTAS) which will help to strengthen tax compliance with the issuance of Tax Identification Numbers and calculation of withholding and corporate income tax liabilities. Further automation will involve real estate tax, motor vehicle registrations, and the integration of SIGTAS with IFMIS, as well as the roll-out of SIGTAS to rural collectorates. We are also progressing towards the introduction of the Value Added Tax (VAT) which will help to broaden the tax base. In this context, we have developed a Policy Framework Paper to facilitate its technical discussion and analysis.

C. Monetary and Exchange Rate Policies and Financial System

16. **Monetary and exchange rate policy will remain focused on containing inflation to low single digits**. In our view, the 19 percent exchange rate depreciation between December 2012 and its peak in the 3rd week of January 2014 was mainly caused by a combination of structural factors such as a reduction in the amount of U.S. dollars in circulation due to the ongoing UNMIL

drawdown and other domestic policy changes. These included a 16.3 percent increase in government spending in Liberian dollars and reduced amounts of U.S. dollars offered in the foreign exchange auction in order to rebuild our foreign reserves buffer. Given the high pass-through to inflation in the context of Liberia's highly dollarized economy, we will aim to contain excessive fluctuations in the Liberian-U.S. dollar exchange rate, while allowing the exchange rate to adjust to changing external conditions and fundamentals.

17. **On the domestic front, joint coordination between the CBL and the Ministry of Finance on liquidity management to better control the supply of Liberian dollars will be strengthened**. Recently, meetings were held between the CBL and the MoF to enhance coordination in the areas of liquidity management and policy harmonization, among others; aimed at ensuring a stable macroeconomic environment. Going forward, this coordination will be institutionalized through regular meetings of the Liquidity Management Committee, which aims at improving liquidity monitoring and forecasting, intended to inform the basis for CBL's intervention in the foreign exchange auction and the sterilization of Liberian dollar liquidity through the issuance of Treasury and CBL bills (end-December 2014 structural benchmark). Also, a technical working group composed of MoF and CBL staff will be set up to prepare a proposal as to timing and possible terms of conversion of part of Central Government debt held by the CBL (end-December 2014 structural benchmark). The Policy Statement, issued yearly by the CBL, remains the main vehicle to communicate the monetary and exchange rate policy stance of the Bank to the public.

18. **We remain committed to maintaining an adequate reserves buffer**. The projected net foreign exchange positions for end-June and end-December, 2014 are US$245.6 million and US$253.9 million, respectively; driven mainly by CBL's budget performance, intervention in the foreign exchange market projected at US$0.75 million per week, repayment on bridge loan facilities with the government (US$4 million expected in June 2014, following a repayment of US$4 million in December 2013), and expected additional purchases of U.S. dollars from the government in the amount of US$3 million, in addition to the regular monthly purchases of US$3.25 million. As a short-term intervention and to immediately relieve some of the exchange rate pressures while preserving foreign reserves, we will gradually implement the reduction in the reserve requirement from 22 to 15 percent on both U.S. and Liberian dollar deposits. As a result, commercial banks' liquid U.S. dollar assets will increase by about US$36 million, while Liberian dollar liquidity would increase by the equivalent of US$5 million, which we would absorb by issuing CBL notes. The increase in U.S. dollars resources available to the commercial banks should also help to support investment in the domestic economy to strengthen the real sector. In addition, we will continue with our policy of issuance of CBL bills in order to absorb the excess Liberian dollar liquidity.

19. **We are making steady progress with other reforms aimed at strengthening financial sector regulation and infrastructure**. Our main policy objectives are to build a strong and viable financial system that will support the private sector development, build an inclusive financial system in the achievement of the Government's Agenda for Transformation and support the establishment of the necessary financial infrastructure to ensure a viable and sustainable financial system.

- *The commercial court* has begun hearing cases and taking actions against non-compliant borrowers, including foreclosure and seizure of property. However, a review of the Commercial Code will be necessary to enhance the effectiveness of the court, given the experience so far since the court started operation 3 years ago.

- *The implementation o*f the *Collateral Registry* project is ongoing and modalities are underway for the procurement of the hardware components. A Registrar has been appointed since last year and office space for the registry identified at the new CBL building. Staff for the Registry has been identified and there are plans to recruit new staff in the future. The CBL has also facilitated several stakeholder consultative workshops/meetings on the prototype of the software and to create the necessary public sensitization about the establishment of the Collateral Registry. A public education campaign will commence in March 2014.

- Also, efforts have been made to improve/upgrade the current *credit reference system* to meet the increasing needs of the commercial banks and to make the system more efficient.

- Regarding the *payments system*, active implementation has commenced with the infrastructure upgrade, which is substantially complete. As at 2013 ending, service providers for the RTGS, ACH, and SWIFT visited the country and met with the stakeholders. Discussions are underway to begin implementation following completion of the infrastructure upgrade which is set for end-March, 2014.

- On the Security Market Act, a regional experience sharing visit is expected to be conducted to finalize the drafting of the Act for submission to the Legislature for enactment into law.

- The CBL is reviewing the existing *mobile money* guidelines to promote outreach and allow more players in the money mobile space. The revised regulations will allow the establishment of specialized non-bank financial institutions that will focus on providing mobile money services. This reform also intends to bring in other non-bank financial institutions, such as credit unions, Village Savings and Loan Associations, and foreign exchange bureaus into the agent network of mobile money operations.

D. Debt Management, Resolution and External Policies

20. **The government's medium term debt management strategy (MTDS) was finalized at end-December 2013 and adopted by the National Debt Management Committee in March 2014**. The MTDS sets out the government's broad objectives and approach to debt management for the period 2014–16, and will be revised and updated each year, as necessary, as part of the budget cycle. We remain committed to ensuring that all the new borrowing envisaged is consistent with maintaining medium-term debt sustainability and the objectives set out in the MTDS. In particular, we will ensure that projects are carefully prioritized and sequenced, in line with absorption capacity, and that the new borrowing is on the most favorable terms.

21. **The Debt Management Unit (DMU) has continued to benefit from training and technical assistance**. Most recently this has included technical assistance from the World Bank on the MTDS and WAIFEM training on the development of the domestic bond market, with further training on the debt management software, CS-DRMS, expected to take place in September 2014. To consolidate the improvements made to the administration and capacity of the Unit, the DMU is now completing a Debt Management Procedure Manual, which will cover all practical aspects of the debt management process, from negotiation, to contracting, to day to day control over disbursements and debt service.

22. **Considering the recent additional concessional financing secured for priority infrastructure projects, total external debt commitments now amount to US$605 million by December 2013**. This is composed of US$377 million of existing ratified agreements, and signed contracts for another US$228 million, including US$38.3 million from the African Development Bank for the CSLG power systems redevelopment project, and US$144 million from India Eximbank for energy transmission and distribution.

23. **The government has also agreed a US$19.6 million letter of credit with Ecobank Liberia for the financing of an HFO power plant**. The letter of credit guarantees payment of the HFO equipment to the foreign supplier, with US$7.5 million already paid by the government to Ecobank in November 2013 to cover the cash collateral requirement. If the government doesn't make timely payments thereafter, this letter of credit will have to be repaid over 4 quarters and will thus constitute an import-related short-term external liability. The letter of credit has been accepted by the supplier's bank and, in line with the payment agreement, shipment is expected by September 2014. The HFO plant is expected to be operational by early 2015.

24. **The government is seeking additional concessional financing for priority infrastructure projects, including the rehabilitation of the Roberts International Airport runway**. The total loan amount for the runway of around US$60 million would be disbursed over a short time period if approved, which would increase the fiscal deficit but would not pose a significant risk to fiscal sustainability due to the generous nature of the expected terms. In addition, the AfDB and World Bank country strategies include a pipeline of about US$415 million in concessional loans.

Text Table 3. Loans Ratified During FY2013 and FY2014 and Loans Pending Ratification by April 15, 2014

Project	Status	Funding Agency	Amount (million of US$)	Grant Element
West African Power Pool	Ratified	IDA	144.5	60%
Small Tree Crop Revitalization	Ratified	IDA	15.0	60%
Small Tree Corp Revitalization	Ratified	IFAD	16.8	56%
Redlight to Ganta Highway	Ratified	IDA	50.0	60%
Mt Coffee Hydroelectric Dam Rehabilitation	Ratified	EIB	65.9	37%
Liberia Accelerated Electricity Expansion Project	Ratified	IDA	35.0	60%
Small Tree Crop Revitalization	Ratified	AFDB	6.4	60%
Fish Town-Harper Road Project Phase-1	Ratified	AFDB	33.8	60%
Fish Town-Harper Road Project Phase-1	Ratified	Nigeria Trust Fund	9.9	42%
Port Rehabilitation	Ratified	Kuwait Fund for Arab Economic Development	14.0	33%
Liberia Health Systems Strenghening	Ratified	IDA	10.0	60%
IDA Budget Support	Ratified	IDA	10.0	60%
Electricity Transmission and Distribution	Awaiting	Indian EXIM Bank	144.0	36%
CSLG Power Systems Re-development	Awaiting	AFDB	38.3	59%
Line of credit for the supply and erection of 2X5 MW HFO by BADEA	Awaiting	BADEA	12.0	53%
Total			605.6	

25. **The Government of Liberia, through the Central Bank of Liberia, began the issuance of Treasury Bills (T-Bills) in early May 2013**. This is part of the process to manage revenue volatility in the short run and, in the medium to longer run, expand the money market and further provide an additional policy instrument to manage Liberian dollar liquidity. The T-Bills auction is limited to financial institutions and currently there is one bill type with a maturity of 91 days. As of December 5, 2013, 8 auctions have been conducted, totaling LD$1.1 billion, with an average discount rate over the period of 2.1 percent. The stock of T-Bills totaled L$320.5 million (US$4 million at the issued exchange rate). As of end-March 2014 US$3 million at face value was outstanding. The current strategy of redemption and re-issuance (rollover) is expected to continue in the short-term, with the possibility of additional net issuance of longer maturities over the course of FY2015 and FY2016, as set out in the Medium Term Debt Management Strategy.

26. **The government has completed the restructuring of pre-HIPC external debt with EIB/EU, ECOWAS, BADEA, OFID, Kuwait, Saudi Arabia, ABD-NTF and France**. Overall, the terms are less favorable than previously assumed. As a result, the updated external debt stock (excluding the outstanding purchases and loans from the IMF and Taiwan) at the end of June 2013 is now about US$26 million higher at US$123 million, compared to US$97 million envisaged at the time of the second ECF review. There has been no progress on the negotiation with Taiwan on the restructuring of pre-HIPC external debt.

E. Improving National Accounts Statistics

27. **We are continuing to make progress towards improving national accounts statistics.**

- *The Household Income Expenditure Survey (HIES) was rolled out at end-January 2014 following a successful pilot phase*. Data collection is on track, with over 15 percent of anticipated total data collected. Data collection will end on January 25 2015. Data cleaning and analysis will follow; with updated national accounts available by December 2015.

- *The establishment survey data has now been cleaned and LISGIS is in the process of putting together the final report*. The National Annual Accounts Surveys (performed in 2009 and 2011) will be used to compile preliminary GDP estimates for 2008–13 by end-June 2014 (structural benchmark); in the absence of the HIES they will contain limited information on the household and informal sector.

PROGRAM MONITORING

28. **Program implementation will be monitored by quantitative performance criteria (PCs) and structural benchmarks (Tables 1, 3, and 4), and semi-annual reviews**. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding. The fourth review is expected to be completed on or after November 15, 2014 based on end-June 2014 and other relevant PCs and the fifth review is expected to be completed on or after May 15, 2015 based on end-December 2014 and other relevant PCs.

Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, 2013–14

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

	June 13		Status	Sep. 13		Dec. 13				Status	Mar. 14				June 14			Sep. 14	Dec 14
	Program	Actual		Program	Actual	2nd Rev.[11]	Program[12]	Adjusted[13]	Actual		2nd Rev.[11]	Program[12]	Adjusted[13]	Prel.	2nd Rev.[11]	Program[12]	Proposed	Proposed	Proposed
Performance criteria[1, 2]																			
Floor on total revenue collection of the central government[3]	447.5	446.1	Not met	120.3	105.0	230.3	230.3	230.3	214.5	Not met	347.8	347.8	347.8	335.6	492.1	492.1	492.1	125.0	245.0
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new non-concessional external debt of the public sector (continuous basis)[9]	14.2	0.0	Met	14.2	0.0	14.2	14.2	14.2	0.0	Met	14.2	14.2	14.2	0.0	14.2	14.2	14.2	14.2	14.2
Ceiling on new domestic borrowing of the central government[4]	15.0	5.0	Met	15.0	5.0	20.0	30.0	30.0	14.0	Met	20.0	35.0	35.0	13.0	20.0	35.0	35.0	40.0	45.0
Floor on CBL's net foreign exchange position[5, 6]	232.0	217.9	Not met	232.0	210.5	237.0	237.0	217.0	237.3	Met	241.0	241.0	221.0	230.2	253.0	253.0	245.0	249.0	253.0
Ceiling on CBL's gross direct credit to central government[6]	268.9	270.3	Not met	268.9	268.4	268.9	264.9	284.9	264.4	Met	268.9	264.9	284.9	266.7	260.9	260.9	260.9	260.4	260.4
Indicative Targets																			
Ceiling on gross external borrowing by the public sector[7]	118.2	226.3	Not met	118.2	150.9	118.2	118.2	118.2	150.9	Not met	118.2	118.2	118.2	160.9	118.2	118.2	265.0	153.2	153.2
Ceiling on net domestic assets of the CBL[5, 6]	-17.0	-21.5	Met	-17.0	-13.4	-17.0	-17.0	3.0	-23.7	Met	-17.0	-17.0	3.0	-22.8	-25.0	-25.0	-25.0	-25.0	-25.0
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on social and other priority spending (percent of total actual expenditure, excluding contingencies)[8]	30.0	25.5	Not met	30.0	32.0	30.0	30.0	30.0	35.9	Met	30.0	30.0	30.0	27.3	30.0	30.0	30.0	30.0	30.0
Memorandum items:																			
Total spending on education, health, social development services (percent of total actual expenditure, excluding contingencies)	…	…	…	…	32.0	…	25.0	25.0	22.9	…	…	25.0	25.0	17.9	…	25.0	25.0	25.0	25.0
Programmed receipt of external budget support grants and committed external loans[2, 10]	33.5	45.7	…	12.6	2.4	53.3	53.3	53.3	31.1	…	55.9	55.9	55.9	31.1	83.5	61.6	61.6	2.5	18.0

Sources: Liberian authorities and IMF staff estimates and projections.

1 Test dates for performance criteria at end-June 2013, end-December 2013, end-June 2014, and end-December 2014 otherwise indicative targets.

2 Fiscal targets are cumulative within each fiscal year (July 1-June 30).

3 Total central government revenue collection includes all tax and non-tax receipt but excludes all contingent revenues and budget support grants.

4 Includes issuance of treasury bills, domestic loans, advances, and any government debt instrument such as long-term securities issued in the domestic market.

5 Includes SDR holdings net of ECF liabilities. SDR holdings converted at program exchage rate of 1 SDR=1.5844 US dollar.

6 The program ceilings for CBL gross credit to government and CBL net domestic assets will be adjusted upward and the program floor on the net foreign exchange position of the CBL will be adjusted downward, by the amount of the difference between actual and programmed external budget support grants and committed budgeted external loan disbursements up to a maximum of US$20 million.

7 This nominal target is set based on a three-year average annual ceiling in NPV terms.

8 Includes spending on education, health care, social development services, and energy.

9 The modification of this PC was requested to include US $14.2 million loan which was signed between the authorities and the Kuwaiti Development Fund for the rehabilitation of Port Greenville. At the time of the First Review the loan did not come into effect. The grant element of the loan is 34 percent (1 percent below the concessionality threshold).

10 The PC excludes the grants for Mount Coffee executed by the Liberian Electricity Company.

11 The targets established prior to the 2nd Review.

12 The targets established at the time of the 2nd Review.

13 The actual targets based on the automatic adjustors.

Table 2. Liberia: Structural Benchmarks for the Third Review, End-December 2013

Measure	Target Date[1]	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Initiate a full financial audit of the extra-budgetary commitments for road projects at the Ministry of Public Works and a review of contracting practices in other key Ministries, including the Ministries of: Education; Health; Agriculture; Land, Mines and Energy; and Commerce.	Prior action	Review the legality of public commitments for road projects, and review contracting practices in other spending ministries to ensure that no additional extra-budgetary obligations have been entered into.	Pending. [The General Auditing Commission has initiated a full financial audit of the extra-budgetary commitments for road projects at the Ministry of Public Works and the review of contracting practices in other key spending ministries.]
Allocate budgetary resources only for contracts that have been validated by the audits.	Prior action	Avoid making payments for fraudulent contracts.	Met. No payment on the list of 52 identified road contracts has been made since the 3rd ECF review mission. Pending the result of the audits, a provision of US$17 million has been included in the draft FY2015 budget and actual payments will be made based on the results of the audits.
Commence daily sweeping of balances in operational accounts of all M&As held at the CBL into the treasury's operational account.	End-Dec. 2013	Improve cash management with a view to eliminate idle accounts.	Not met on time, but implemented with delay, on February 12.

Table 2. Liberia: Structural Benchmarks for the Third Review, End-December 2013 (concluded)			
Measure	**Target Date**[1]	**Justification**	**Current Status-Risks**
Improving capital spending execution and curbing current expenditure			
Complete forward looking medium-term debt strategy consistent with fully costed PRS2.	End-Dec. 2013	Ensure consistency between borrowing plans and PRS2 and maintaining debt sustainability.	Met. The Ministry of Finance prepared the medium-term public debt strategy, which reflects recommendations provided by the Fund. Strategy formally approved by the Debt Management Committee in March 2014.
Submit to the Legislature the draft petroleum sector law and the amendments to the revenue code.	End-Dec. 2013	Ensure the tax regime for the petroleum sector generates the appropriate level of revenues to the GoL based on international best practice.	Met. FAD provided comments on the draft, which is awaiting Legislature approval.
General Auditing Commission (GAC) to complete audit of the FY2012 budget using the Integrated Financial Management Information System (IFMIS).	End-Dec. 2013	Improve expenditure control for effective budget implementation.	Met. Audit has been completed with the draft management letter (outcome of audit) issued at end-September.
Developing the financial system			
Establish a collateral registry at CBL.	End-Dec. 2013	Support more secure lending practices and prevent borrowers from contracting loans from multiple banks based on the same collateral.	Reset from end-June 2013. Met. The Collateral Registry Regulations to guide the operations and management of the registry has been published. Head of the Registry has been appointed and is operating at the CBL.

[1]Target dates are indicative only.

LIBERIA

Table 3. Liberia: Structural Benchmarks for the Fourth Review, End-June 2014

Measure	Target Date[1]	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Complete clean-up of payrolls of 5 Ministries and Agencies (M&As) and upload the cleaned payrolls to IFMIS.	End-March 2014	Reduce payments to ghost workers and increase fiscal space for capital investment.	Met. Validation of the payroll and issuance of biometric cards completed for all ministries and agencies in March 2014 with the removal of about 4,000 ghost workers.
Launch pilot phase of the TSA with zero-balance accounts for seven largest ministries.	End-June 2014	Improve cash management with a view to eliminate idle accounts.	On track.
Ministries and Agencies submit to the Department of Budget the cash and procurement plans for both recurrent and PSIP expenditure starting in FY2015.	End-June 2014	Improve execution of public investment.	Newly proposed.
Publish the FY2016 budget calendar which will, inter alia, require that discussions of the strategic orientations of the budget between the Ministry of Finance and M&As take place before the end of December 2014.	End-June 2014	Ensure sufficient time for consultations on the strategic orientation of the budget.	Newly proposed.

Table 3. Liberia: Structural Benchmarks for the Fourth Review, End-June 2014 (concluded)

Measure	Target Date[1]	Justification	Current Status-Risks
Complete pilot phase for the migration of credit-financed projects to the Government's Integrated Financial System (IFMIS).	End-June 2014	Strengthen the tracking of off-budget government spending and comprehensiveness of the budget in line with the PFM Act.	On track. Pilot phase in progress.
Enhancing national accounts statistics			
Compile national accounts for 2008–13 using the results of the National Accounts Annual Surveys.	End-June 2014	Streamlining earlier conditionality and focusing on key program objective to produce enhanced national accounts statistics.	On track. Replaced previous benchmarks on the Household Income and Expenditure Survey and the Establishment Survey.
Developing the financial system			
Submit to Legislature a revised Insurance Act.	End-March 2014	Streamline regulation in the insurance sector and establish the central bank as the sole regulator of all insurance agencies.	Not met. The revised Insurance Act was expected to be submitted to the Legislature in January 2014, but has not been submitted yet.

[1]Target dates are indicative only.

Table 4. Liberia: Structural Benchmarks for the Fifth Review, End-December 2014

Measure	Target Date[1]	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Complete the pilot phase of the TSA with zero-balance accounts at the Central Bank of Liberia for all ministries and agencies.	End-December 2014	Improve cash management with a view to eliminate idle accounts.	Newly proposed.
Hold regular (monthly) meetings of the Liquidity Management Committee, with high-level (department director or deputy governor at least) participation by the CBL.	End-December 2014	Strengthen liquidity management.	Newly proposed.
PMO to compile and develop a database of all ongoing domestically and external credit-financed investment projects.	End-December 2014	Strengthen the monitoring, particularly, of multi-year investment projects to ensure adequate budgetary allocations.	Newly proposed.
Developing the financial system			
Technical working group composed of MoF and CBL staff to prepare a proposal as to timing and possible terms of conversion of part of Central Government debt held by the CBL.	End-December 2014	Provide the CBL with a stock of T-bills that can be used to conduct monetary policy.	Newly proposed to replace a previous benchmark on the conversion of 20 percent of non-marketable Central Government debt held by the CBL into T-bills.

[1]Target dates are indicative only.

Attachment 2. Technical Memorandum of Understanding

This memorandum sets out the understandings between the Liberian authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative and structural performance criteria and benchmarks for the three-year Extended Credit Facility (ECF), as well as the reporting requirements. The definitions are valid at the start of the program but may need to be revisited during the program reviews to ensure that the memorandum continues to reflect the best understanding of the Liberian authorities and the IMF staff in monitoring the program.

QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

A. Test Dates

1. Quantitative performance criteria have been set for end-December 2014 and indicative quantitative performance benchmarks have been set for end-September 2014.

B. Definitions and Computation

2. **For the purposes of the program**, **the Government is defined as the Central Government of Liberia (GoL)**. This definition excludes legally autonomous state-owned enterprises whose budgets are not included in the central government budget. The operations of the central government will be presented in U.S. dollars with all revenues and expenditures that are denominated in Liberian dollars converted at the end of period exchange rate. The public sector comprises the central government, the Central Bank of Liberia (CBL), and public enterprises (enterprises and agencies in which the government holds a controlling stake—typically owns more than 50 percent of the shares, but which are not consolidated in the budget).

3. **Total Central Government revenue collection** includes all tax and nontax receipts (excluding contingent revenues) transferred into the GoL Revenue accounts at the CBL, including income and transfers from state-owned enterprises and public institutions (excluding external loans and grants). The GoL accounts at the CBL include the GoL Revenue Accounts in U.S. dollars, the Revenue Accounts in Liberian dollars, the Civil Servants Payroll Accounts in Liberian dollars, the General Operations Accounts in U.S. dollars, the General Operations Accounts in Liberian dollars, the GoL Special Rice Fund, and all Ministries and Agencies operational and other accounts. Any new accounts opened by the GoL at the CBL or at any other local financial agency shall be reported to the IMF as well. For the purposes of the program, the revenues of the GoL are measured on the basis of cash deposits in the Revenue Account in U.S. dollars, the Revenue Account in Liberian dollars, and the GOL Special Rice Fund converted to U.S. dollars using the end of period exchange rate.

4. **For end-June 2014 and end-December 2014, social spending is defined as education, health, social development services, and energy sector spending** from the FY2014 and FY2015 budgets of the units listed below (payment vouchers approved by the Ministry of Finance) excluding contingent expenditure. It is evaluated as a share of total expenditure (payment vouchers approved

by the Ministry of Finance), where total expenditure excludes contingent expenditure tied to contingent revenues and off budget expenditure tied to off-budget credit financed projects.

Total Education, Health, Social Development Services, and Energy Spending
Education
Ministry of Education
University of Liberia
Monrovia Consolidated School System (MCSS)
Booker Washington Institution (BWI)
Gbarnga Central High
Forestry Training Institution (FTI)
Cuttington University (CUC)
National Commission on Higher Education (NCHE)
W. V. S. Tubman Technical College (WVSTC)
West African Examination Council (WAEC)
Liberia Institute for Public Administration
Agricultural and Industrial Training Bureau
Zorzor Rural Teacher Training Institute
Webbo Rural Teacher Training Institute
Kakata Rural Teacher Training Institute
Bassa County Community College
Bomi County Community College
Nimba Community College
Lofa Community College
Gboveh Community College

Total Education, Health, Social Development Services, and Energy Spending (concluded)
Health
Ministry of Health and Welfare
JFK Medical Center (JFKMC)
Phebe Hospital
LIBR
Jackson F. Doe Medical Hospital
Liberia Medicines and Health Regulatory Authority
National Aids Commission
Social Development Services
Ministry of Youth & Sports
Ministry of Gender & Development
Liberian Refugee Repatriation and Resettlement
National Commission on Disabilities
National Veterans Bureau
Liberia Agency for Community Empowerment
Energy Sector
Thermal diesel (HFO) power station
Transmission and distribution
Mount Coffee rehabilitation, transmission, and distribution to Bushrod Island

5. **Social and other priority spending will be adjusted downward** by the undisbursed amounts from budgeted external financing (grants and borrowing) allocated to projects in the energy sector within the public sector investment program.

6. **New domestic borrowing of the Central Government** is defined as new domestic claims by residents on the central government since the start of the program. It will be measured by the change in the stock of all outstanding claims on the central government (domestic loans; advances; government guarantees; and contingent financial liabilities as stipulated in paragraph 7; and any government debt instruments, such as treasury bills and long-term government securities issued in the domestic market) by the banking system. The definition also includes the issuance of debt instruments by the GoL to the nonbank sector. For the purposes of measurement, claims in Liberian dollars will be converted at the end of period exchange rate.

7. **Contingent financial liabilities of the central government (external and internal) include but are not limited to** (i) any guarantee, direct or implicit, of the performance or payment obligations of any private or public entity; (ii) any agreement, including any indemnification agreement, to hold another private or public entity harmless or to provide insurance or similar protection against risk of loss; (iii) any guarantee of economic return to another public or private

entity including any guarantee of profit, income or rates of return; (iv) any agreement to provide financial support to another private or public entity in connection with specified activities of such other entity; and (v) any other agreement as provided by regulations under Liberia's Public Financial Management Act.

8. **Gross external borrowing by the public sector** is defined as cumulated new public sector external debt as defined in paragraph 9 from July 1, 2012, excluding borrowing for reserve management purposes by the CBL.

9. **The definition of external debt (both concessional and nonconcessional) by the public sector**, for the purposes of the program, refers to the debt owed to non-residents, and it applies not only to the meaning set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt" (Executive Board Decisions No. 6230-(79/140) August 3, 1979, as amended and effective December 1, 2009 attached in Annex I), but also to commitments contracted or guaranteed for which value has not been received.

10. **A debt is defined as concessional if, on the date of signature, the ratio between the present value of debt and the face value of the debt is less than 65 percent** (equivalent to a grant element of at least 35 percent). The discount rate used for this purpose is 5 percent for all the loans signed after July 3, 2014. For all the loans signed before July 3, 2014, the discount rate will be determined on the basis of the commercial interest reference rates published by the Organization for Economic Cooperation and Development (OECD) on the date of signature.

11. **The ceiling for contracting and guaranteeing non-concessional external debt by the public sector will be set at US$14.2 million continuously throughout the program period unless modified**. The ceiling for contracting and guaranteeing nonconcessional debt excludes short-term (debt contracted for a period of less than one year) import-related credits, rescheduling arrangements, and borrowing from the Fund.

12. **The government undertakes not to incur payments arrears on external debt that it owes or guarantees**, with the exception of external payments arrears arising from government debt that is being renegotiated with creditors, including Paris Club creditors. Arrears on external debt are defined as any unpaid obligation on the contractual due date. In cases where a creditor has granted a grace period after the contractual due date, arrears are incurred following the expiration of the grace period.

13. **New domestic arrears/payables of the government** are calculated as the difference between government payment commitments and the actual payments made on such commitments, providing for a processing period of no more than 15 days from the date of commitment. Actual payments are defined as having taken place on the date of issuance of the checks by the Ministry of Finance. Government payment commitments include all expenditure for which commitment vouchers have been approved by the Expenditure Department, and expenditures that are now automatically approved, namely, wages and salaries, pensions, debt payments to the CBL and commercial banks, CBL bank charges, and transfers of ECOWAS levies into the ECOWAS account.

14. **CBL gross direct credit to central government** is defined as the sum of claims on central government, including loans, advances, guarantees and contingent financial liabilities as defined in paragraph 7, accounts receivable, bridge financing, overdrafts, and any government debt instrument as defined in the monetary survey template excluding CBL purchases of treasury bills in the secondary market. An overdraft is defined as a negative outstanding balance of the consolidated government account at the CBL (i.e., the sum of the GoL Revenue Accounts in U.S. dollars; the Revenue Accounts in Liberian dollars; the Civil Servants Payroll Accounts in Liberian dollars; the General Operations Accounts in U.S. dollars; and the General Operations Accounts in Liberian dollars). The gross credit to the government is expressed in U.S. dollars. Claims denominated in Liberian dollars are valued at the end-of-period exchange rate.

15. **The net foreign exchange position of the CBL** is defined as the difference between (a) the CBL's gross foreign reserves including SDR holdings; and (b) the sum of its gross foreign liquid liabilities, ECF arrangement liabilities, and liquid liabilities denominated in U.S. dollars. The net foreign exchange position of the CBL is presented in U.S. dollars. Assets and liabilities denominated in SDRs are valued at a fixed rate of the U.S. dollar against SDR, 1.5844. Other currencies are valued at cross-rates against the U.S. dollar as of end-June, 2012.

16. **The net domestic assets of the CBL** are defined as base money minus the net foreign assets of the CBL converted into United States dollars at program exchange rates as defined in paragraph 14. Base money is defined as the stock of Liberian dollars in circulation plus reserve deposits of commercial banks in Liberian dollars at the CBL, plus sight deposits of commercial banks in Liberian dollars at the CBL and plus vault cash of commercial banks in Liberian dollars. The net foreign assets of the CBL are defined as foreign assets minus foreign liabilities of the CBL balance sheet.

17. **External financing adjustor**. The program ceilings for CBL gross credit to government and CBL net domestic assets will be adjusted upward and the program floor on the net foreign exchange position of the CBL will be adjusted downward, by the amount of the difference between actual and programmed external budget support grants and committed budgeted external loan disbursements up to a maximum of US$20 million. The adjuster will be calculated on a cumulative basis from the start of the financial year (July 1).

Cumulative Program External Budget Support and Committed Budgeted External Loan Disbursements
(Millions of U.S. dollars)

September 2013	12.6
December 2013	53.3
March 2014	55.9
June 2014	61.6
September 2014	2.5
December 2014	18.0
March 2015	30.5
June 2015	45.1

PROGRAM MONITORING

A. Data Reporting to the IMF

18. To allow monitoring of developments under the program, the Ministry of Finance will coordinate and regularly report the following information to the staff of the IMF:

- Monthly fiscal reconciliation reports, where cash revenue and expenditure with spending commitments are reconciled (monthly, within three weeks after the end of the month);

- Detailed reports on monthly core and contingent revenue and expenditure on both a cash and a commitment basis by budget line and a completed summary table on central government operations (monthly, within three weeks after the end of the month);

- Outstanding appropriations, allotments and commitments, and disbursements for line ministries and agencies (monthly, within three weeks after the end of the month);

- A detailed report on disbursements of budget support grants and budgeted and off-budget loans, by donor and by project (monthly, within three weeks after the end of the month);

- Monthly sweeping reports showing the end of the month balances of the GoL accounts at the CBL and of all operations and other accounts at the CBL of the M&As (monthly, within three weeks after the end of the month). End-of-month balances of all operating and other accounts at the CBL of the line ministries and agencies receiving budgetary appropriations (monthly within three weeks after the end of the month);

- End-of-month balances of all operating and other accounts at the CBL of all other public institutions (monthly within three weeks after the end of the month);

- A table providing the end-of-period stock of domestic arrears accumulated and payments made on arrears during the program period, by budget category (wages, goods and services, etc.), including payment and stock of existing arrears from the previous ECF Arrangement (monthly, within three weeks after the end of the month);

- The amount of new external debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);

- The amount of new domestic debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);

- A detailed report on monthly payments on external debt by category and creditors and the stock of external debt (monthly, within three weeks after the end of the month);

- A detailed report on monthly payments on domestic debt by category and the domestic debt stock (monthly, within three weeks after the end of the month);

- The balance sheet of the CBL in the monthly monetary survey (monthly, within three weeks after the end of the month);

- The full monthly monetary survey of the monetary sector (monthly, within three weeks after the end of the month);

- The detailed table of commercial banks' loans and advances by sector (monthly, within three week after the end of month);

- The core set of financial soundness indicators for the banking system, including the overall profitability of the banking sector (quarterly, within three weeks after the end of the quarter);

- The report on the results of foreign exchange sales/purchases by the CBL through foreign exchange auctions held by the CBL (weekly) and other currency exchange facilities;

- A report on the results of T-bills and CBL bills issuances (monthly, within three week after the end of month);

- Regular sale of U.S. dollars by the Ministry of Finance to the CBL, including amount date, and rate of exchange (monthly, within three weeks after the end of the month);

- Indicators of overall economic trends, including but not limited to:

    - detailed tables of the monthly harmonized consumer price index (within three weeks after the end of the month);

    - daily foreign exchange rates (monthly);

    - export volumes and values by major commodity, import values by standard international trade classification (SITC), import volumes of rice (by commercial and noncommercial use) and petroleum products (monthly, within three weeks after the end of the month);

    - interest rates and commercial bank remittance inflows and outflows (monthly, within three weeks after the end of the month); and

    - production data in value and volume (monthly, within six weeks after the end of the month);

- Quarterly reports of state owned enterprise financial operations submitted to the Ministry of Finance within 45 days after the end of the quarter;

- A detailed report on liquidity forecasting up to 6 months ahead, including: (i) projected government's cash flows (revenue, expenditure, repayments and disbursements of loans including T-bills) by currency; (ii) projected flows to the CBL's net exchange position, including but not limited to planned U.S. dollar sales in the foreign exchange auction, and planned foreign exchange transactions with the Government; and (iii) projected flows of

Liberian dollar liquidity, including but not limited to planned CBL Notes issuance (monthly, within six weeks after the end of month);

- The report on the status of implementation of the performance criteria and structural benchmarks specified in Tables 1, 3, and 4 of the MEFP (monthly, within three weeks after the end of the month).

19. The above data and reports will be provided in hard copies and electronically to the IMF Resident Representative to Liberia, with copies to the local IMF economist, Mr. Deline (adeline@imf.org) for further transfer to the African Department of the IMF in Washington, D.C.

20. Moreover, we will provide the Fund with such information as the Fund requests in connection with the progress in implementing the policies and reaching the objectives of the program.

Annex. Guidelines on Performance Criteria with Respect to External Debt

Excerpt from Executive Board Decision No. 6230-(79/140) August 3, 1979, as amended in 2009

(a) The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Appendix II. Exchange Rate Developments and Policy Responses[1]

Recent exchange rate movements and pass-through

1. **The Liberian dollar depreciated by 21 percent against the U.S. dollar between December 2012 and April 2014**. The exchange rate had remained broadly stable since 2010 but started to depreciate in the second half of 2013. In mid-January 2014, the Central Bank of Liberia (CBL) intervened heavily, offering a total US$9.2 million in sales in three weekly auctions, and issuing 6-month Liberian-dollar-denominated CBL bills equivalent to US$10.4 million. As a result, the exchange rate temporarily appreciated back to its October 2013 level, before resuming its downward move.

2. **The depreciation pressures mainly reflect a widening current account deficit**. The current account deficit widened from 28 to 35 percent of GDP from 2012 to 2013, reflecting lower net remittances and income, in spite of a temporary tightening of the trade balance. The current account deficit is projected to widen further to 46.6 percent of GDP in 2014 owing to higher capital goods imports related to mining and public infrastructure investments. The UNMIL drawdown, with a net reduction of about 1,600 Liberia-based foreign personnel in 2013, could also be associated with the lower U.S. dollars supply. Another 2,200 UN soldiers are planned to leave Liberia in 2014 and 2015. As post-conflict relief operations wind down, a number of NGOs are also downsizing their operations.

3. **Weak Liberian-dollar liquidity management has likely accentuated exchange rate movements**. Insufficient coordination between fiscal and monetary policies has led to domestic currency imbalances. The government increased Liberian-dollar spending by 16 percent in 2013, while sterilization was not sufficient to absorb excess Liberian-dollar liquidity. In parallel, demand for U.S. dollars in the foreign exchange auctions increased throughout the year. Demand pressures were exacerbated as the CBL limited its foreign exchange intervention in the second half of 2013, in an effort to rebuild foreign reserves. Starting in August 2013, the U.S. dollars sold at the auctions declined from US$2.25 million per week to US$0.75 million (Staff Report, Figure 2).

4. **The exchange rate depreciation has led to higher inflation**. CPI inflation in Liberian dollars was contained in single digits (8.5 percent) in 2013, reflecting low international food and fuel prices, but rose to 9.8 percent in April 2014. Staff's analysis indicates that the short-run exchange rate pass-through to inflation ranges from 46 to 76 percent after one year. A vector error correction model is estimated using monthly data from March 2004 to March 2014 of overall Liberian-dollar denominated CPI, the nominal exchange rate against the U.S. dollar, and an international price index of imported goods (Chart 1). The estimated short-run pass-through is 46 percent after one year in the baseline and 76 percent when the international price index is kept constant (Chart 2). The estimated pass-through is relatively high compared to cross-country estimates in the literature (Ca'Zorzi, Hahn, and Sánchez, 2007; Frankel, Parsley, and Wei, 2012).

[1] Prepared by Si Guo (SPR) and Futoshi Narita (AFR).

Chart 1. CPI, The Exchange Rate, and International Prices of Imported Goods
(Natural log of indices, monthly)

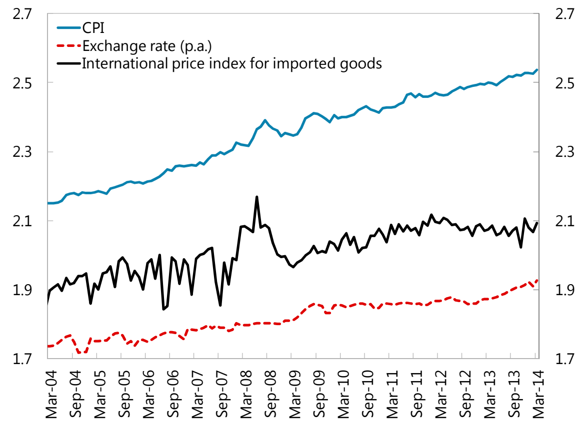
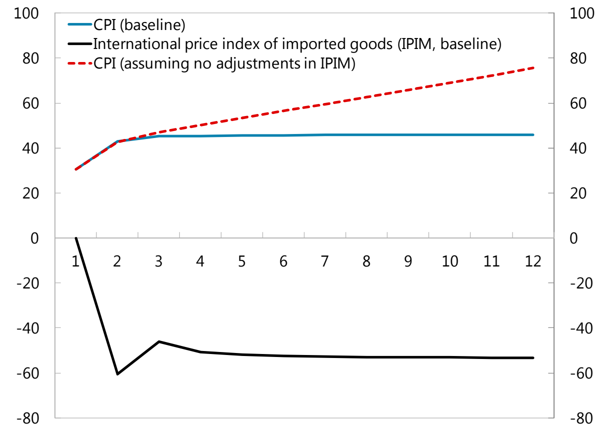


Chart 2. Impulse Responses To One Percent Change in the Exchange Rate
(Basis point, monthly)



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

Medium-term competitiveness

5. **The real effective exchange rate remains broadly in line with fundamentals** (Text Table 1). The recent 6.6 real effective exchange depreciation follows a 17 percent real appreciation since 2008. The macro-balance (MB) approach indicates a smaller current account norm than projected in the medium run, mainly due to the high real GDP growth and a large negative net foreign assets position, and hence some real overvaluation. The external sustainability (ES) approach and the equilibrium real exchange rate (ERER) approach indicate that the real effective exchange rate is somewhat undervalued.

Text Table 1. Liberia: Medium Term Exchange Rate Assessment[1]

	CA Norm	Underlying CA[2]	CA Gap	Elasticity	Misalignment
MB	-16.6%	-21.1%	-4.5%	-0.47	9.8%
ES[3]	-23.7%	-21.1%	2.5%	-0.47	-5.5%
ERER					-10.2%

[1] The results are subject to low data quality. Elasticity is estimated by following the method in Hakura and Billmeier (2008).
[2] Underlying CA deficit = Projected CA deficit - temporary fluctuations of iron-ore related imports.
[3] The ES approach calibrates the medium-term NFA to match the estimated NFA in 2013.

6. **In the long run, the high current account deficit indicates the need to implement policies to boost competitiveness**. Part of the deficit is sustainably financed by aid and FDI flows, and increasing iron ore exports will help to gradually improve the current account balance. However, the development of non-mining activity will require improving both infrastructure and the business environment (Staff Report, Figure 2). Addressing the infrastructure gaps in particular will reduce production costs and help enhance competitiveness.

Policy recommendations

7. **The authorities ought to strengthen policy coordination to smooth exchange rate volatility while allowing the exchange rate to adjust to changing fundamentals**. Staff's analysis suggests that the depreciation trend is in line with a widening current account deficit.

However, greater and more regular cooperation between the Ministry of Finance and the CBL on liquidity management will be required to avoid excessive exchange rate fluctuations. Further developing domestic monetary policy instruments would help enhance monetary policy effectiveness. Specific measures include:

- ***Matching Liberian dollar government spending and revenue collection***. The Minister of Finance ought to continue to encourage the payment of taxes in Liberian dollars, including taxes on international transactions.

- ***Lowering the high reserve requirements***. The CBL is implementing a reduction in the reserve requirement on both Liberian and U.S. dollar deposits from 22 percent to 15 percent, which would temporarily alleviate pressures on the foreign exchange auction.

- ***Actively sterilizing Liberian dollar liquidity***. Increasing issuances of T-bills and, in particular, CBL bills would mop up Liberian dollar liquidity. The CBL should consider moving towards shorter-maturity notes for more flexible Liberian dollar liquidity management.

- ***Continuing to maintain an adequate reserves buffer of about 3 months of essential imports is important given the direct impact of external shocks on domestic consumption***. The path of reserve accumulation should also provide room for intervention to smooth excessive exchange rate volatility.

References

Ca'Zorzi, M., E. Hahn, and M. Sánchez, 2007, *Exchange Rate Pass-through in Emerging Markets*, Working Paper Series, No.739, March, European Central Bank.

Frankel, J., D. Parsley, and S. Wei, 2012, "Slow Pass-through Around the World: A New Import for Developing Countries?," *Open Economies Review*, 23, 213–251.

Hakura, D. S., and A. Billmeier, 2008, *Trade Elasticities in the Middle East and Central Asia: What is the Role of Oil?*, IMF Working Paper 08/216, September.

INTERNATIONAL MONETARY FUND

LIBERIA

June 17, 2014

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By African Department (In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2014)

Membership Status: Joined: March 28, 1962. Article XIV

General Resources Account:	**SDR Million**	**%Quota**
Quota	129.20	100.00
Fund holdings of currency	129.18	99.99
Reserve Tranche Position	0.03	0.02

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	123.98	100.00
Holdings	173.22	139.71

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	64.28	49.76

Latest Financial Arrangements:

	Date of Arrangement	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF	Nov. 19, 2012	Nov. 18, 2015	51.68	22.15
ECF[1]	Mar. 14, 2008	May 17, 2012	247.90	247.90
EFF	Mar. 14, 2008	Sep. 25, 2008	342.77	342.77
Stand-By	Dec. 07, 1984	Dec. 06, 1985	42.78	8.50

[1] Formerly PRGF.

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

	Forthcoming				
	2014	2015	2016	2017	2018
Principal	2.10	3.69	5.46	7.68	11.10
Charges/Interest	0.00	0.15	0.14	0.13	0.10
Total	**2.10**	**3.84**	**5.61**	**7.81**	**11.20**

Implementation of HIPC Initiative: Enhanced Framework

I. Commitment of HIPC assistance	
Decision point date	March 2008
Assistance committed	
By all creditors (US$ Million)[1]	2,739.20
Of which: IMF assistance (US$ Million)	721.10
(SDR equivalent in millions)	440.90
Completion point date	June 2010

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

II.	Disbursement of IMF assistance (SDR Million)	
	Assistance disbursed to the member	440.90
	Interim assistance	30.14
	Completion point balance	410.76
	Additional disbursement of interest income [2]	10.99
	Total disbursements	451.89

[2] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Delivery of Debt Relief at the Completion Point:

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

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

Safeguards Assessment

An update of the 2011 safeguards assessment of the Central Bank of Liberia (CBL), completed in September 2013, noted slow progress by the CBL in implementing previous safeguards recommendations and a need to regain momentum in building adequate safeguards. The recent technical breaches of the CBL Act with regard to credit to government raise safeguards concerns on governance and compliance mechanisms at the CBL. Separately, the CBL's expansion of the credit stimulus schemes (initiated during 2010) to include other sectors, resulted in additional foreign exchange reserves being placed with commercial banks. The audited financial statements classify them as loans and advances creating an apparent inconsistency as, under the CBL Act provisions on credit to financial institutions, such placements would require collateral and duration limits. The authorities generally agreed with the recommendations of the assessment, but did not agree with statements on the breaches of the CBL Act and the credit stimulus schemes. Notwithstanding this, activity under the credit schemes has been capped as recommended by the ECF program second review. In addition, staff has noted progress in the implementation of a few other key recommendations.

Exchange Rate Arrangement

Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers. The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. The de facto exchange rate regime is classified as 'other managed' effective November 7, 2011 when the exchange rate departed from the stabilized 2 percent six-month band. The de jure exchange rate regime classification remains 'managed floating'. The Central Bank of Liberia (CBL) intervenes in the foreign exchange market to smooth volatility. The exchange rate between the Liberian dollar and United States dollar at May 15, 2014 was L$89=US$1 (mid-point between buying and selling rates).

Article IV Consultation and Review of the ECF Arrangement

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

The second review of the three-year arrangement under the Extended Credit Facility was discussed by the Board on November 26, 2013 (Country Report No. 13/365, December 2013) and is posted on the IMF website.

Technical Assistance 2012–14

Subject	Department	Date
Resident Advisors		
Public Financial Management	FAD	July 2008–Present

Topic	Date
Fiscal Affairs Department	
Cash Flow Planning and Government Banking Arrangements	April and December 2012
Cash Flow Management	April and December 2012
County Treasuries	September 2012
Management of Public Investment Projects	October 2012
SOE Financial Reporting Framework	March–April 2012 March–April , September 2013
Public Expenditure Financial Assessment (PEFA)	April and June 2012
Medium Term Expenditure Framework	October 2013
PFM Monitoring and Evaluation Framework	February and September 2013
Fiscal Reporting	December 2012 and February 2013
Tax Policy	November–December 2012
Revenue Administration	January–February and September 2012, February and October 2013
Tax Administration (Enforcement and TSC)	November–December 2012
ITAS Implementation and Taxpayer Survey	May–June 2013
Automated Audit Risk Selection Plan	July–August 2013

Topic	Date
Progress under the Topical Trust Fund	June 2013
Capacity Building and Sector Audit Training, including computer assisted audit techniques in Telecommunications.	August–September and November 2013; April 2014
Process Re-engineering and Data Integrity Project	November 2013; February and April 2014
Progress and launching the Liberia Revenue Authority	November 2013; February and April 2014
Statistics Department	
Short-term Resident Advisor on National Accounts	May–August 2012
Monetary and Financial Statistics	April 2013
Government Finance Statistics	September 2013
Balance of Payments	March 2013
National Accounts	April 2013
Monetary and Capital Markets Department	
Accounting	January 2012
Monetary Operations	January 2012
Payment Systems Law	February 2012
Banking Supervision	March–April 2012 and October 2013; January and April 2014.
Central Bank Accounting (IFRS)	September 2012
Stress Testing	January and Aug. 2012; Feb. and April 2013
Monetary and Financial Statistics	March–April 2013
Managing Liquidity and strengthening Research Department Analytical Capacity	February 2013
Evaluating and strengthening the Treasury Bill Program and Research Department Reporting	May 2013
Stress Testing – TA Evaluation	July 2013
Resolution Strategies for High Levels of Nonperforming Loans	November-December 2013
Liquidity Forecasting	May 2014.
Legal Department	
Drafting Tax Legislation (income tax, VAT and natural resource taxation)	November 2012 and March 2013

Resident Representative

A resident representative has been posted in Monrovia since April 2, 2006. Mr. Sobolev assumed the position in July 2009 and his term expired in September 2013. Mr. Amo-Yartey assumed the post as a new resident representative on May 1, 2014.

JOINT WORLD BANK-IMF WORK PROGRAM, 2012–14

(As of May 20, 2014)

Title	Products	Timing of mission	Expected delivery date	Status
A. Mutual information on relevant work programs				
1. World Bank work program	1. Liberia Poverty Assessment	January 2010	May 2012	Completed
	2. Public Expenditure Review Notes	November 2011	July 2013	Completed
	3. First Poverty Reduction Support Credit (PRSC I)	May 2013	August 2013	Approved and Effective
	4. Decentralization Policy Note	January 2013	July 2013	Completed
	5. Second Poverty Reduction Support Credit (PRSCII)	October 2013	September 2014	On-going
	6. Diagnostic Trade Integration Study (Update)	October 2012	June 2014	On-going
	7. Jobs Policy Note	March 2014	June 2014	On-going
	8. Household Income and Expenditure Survey	January 2014	January 2015	On-going
2. IMF work program	1. Negotiation successor ECF	July–Sept. 2012	November 2012	ECF Program approved on Nov. 19, 2013.
	2. Article IV Consultation	July–Sept. 2012	Nov. 2012	Completed
	3. First review of ECF Program	March 2013	July 3, 2013	Completed
	4. Second review of ECF Program	Sept. 2013	Nov. 2013	Completed
	5. Third review of ECF Program	March 2014	July 3, 2014	On-going
	6. Fourth Review and Article IV Consultation	Sept. 2014	December 2014	On-going
	7. Promoting Inclusive Growth-Job Creation in Liberia		August 2014	Working Paper On-going
	8. Sources of Economic Growth	May 2014	September 2014	On-going
	9. Monetary and Exchange Rate Policy Framework: Steps towards establishing a monetary anchor		August 2014	Working Paper On-going
	10. Assessing Liberia's External Sector Vulnerabilities		September 2014	Working Paper On-going
	11. Outreach program to Legislature, private sector associations, and students		March, September 2014	On-going

Title	Products	Timing of mission	Expected delivery date	Status
3. WB/IMF Joint work program	1. Updated Debt Sustainability Analysis	March 2014	June 2014	Completed
	2. Technical Assistance for PFM reforms and decentralization.			On-going
	3. Assist the authorities in developing national accounts	January-June 2014	June 2014	Ongoing
	4. Revenue enhancement support			On-going
B. Requests for work program inputs				
4. Fund request to Bank	1. Regular updates on the Liberia Reconstruction Trust Fund, disbursements of loans, including PRSC		Quarterly and as needed	
	2. World Bank Relations Note		As needed	
5. Bank request to Fund	1. Regular updates of performance under the Fund-supported program, macroeconomic projections and data following each IMF mission		Continuous	Last update April 2014
	2. IMF Relations Note		As needed	

RELATIONS WITH THE WORLD BANK GROUP[1]

(As of May 20, 2014)

A. Bank Group Strategy

The current Country Partnership Strategy (CPS) for Liberia was discussed by the Board of the World Bank Group on July 30, 2013. The overarching objective of the CPS is to support the Government's Agenda for Transformation (AfT) to contribute to sustained growth, poverty reduction and shared prosperity while exiting fragility and building resilience. In this regard, the CPS pillars are aligned with three key pillars of the AfT: (i) **Economic Transformation** to reduce constraints to rapid, broad-based and sustained economic growth to create employment; (ii) **Human Development** to increase access and quality of basic social services and reduce vulnerability; and (iii) **Governance and Public Sector Institutions** to improve public sector and natural resources governance. In addition, the CPS focused on the themes of capacity development and gender equity both of which will be mainstreamed throughout the Bank Group's portfolio.

The World Bank Group's program under the CPS involves a combination of development policy lending, investment lending and analytical work in support of the strategic pillars. The IDA allocation for the lending program for the CPS period is approximately US$308 million encompassing the remaining period of IDA 16 (to June 2014) and the full IDA 17 allocation. The majority of the IDA financing during the CPS will focus on investment in the energy and transport sectors to help remove binding constraints to growth and improve well-being. IDA financing under the CPS will also support building institutional and human capacity essential for the effective implementation of the AfT and the country's long-term vision plan.

The International Finance Corporation (IFC) investment over the CPS period could average US$25–35 million per year. The current IFC portfolio comprises US$7 million in equity; US$13 million credit and trade lines; US$13 million seed investment in the West Africa Venture Fund for direct on-lending to, or equity in SMEs and US$6 million debt financing in the rubber sector. The priority sectors for IFC's investments include agribusiness, infrastructure including power, financial services and mining. IFC's advisory service will include strategic engagement in investment climate improvement, education to foster employment, supplier linkages, agriculture, leasing, finance services infrastructure and private sector development.

B. Active Projects

There are currently fourteen (14) active[2] IDA projects in Liberia, including four regional projects, with a total commitment of approximately US$342.2 million of which approximately US$142.4 million is

[1] Prepared by the World Bank.

[2] Includes effective and or disbursing operations.

undisbursed. Two new credits have been approved for FY14 to date, for a total commitment of approximately US$21.6 million. These new credits are summarized below:

A second Additional Financing for the Liberia Urban and Rural Infrastructure Rehabilitation Project (URIRP) was approved in January 2014 for US$19.6 million; also approved was a US$9.4 million grant from the LRTF (Liberia Reconstruction Trust Fund). The objective of the project is to support government's goal of improving road access in Monrovia and targeted rural areas, as well as improve institutional structure for technical management of the road sector. This objective lies at the heart of the Bank's assistance strategy for Liberia. The government has requested that International Development Association (IDA) take the lead role in the transport sector and intensely assist the country not only by providing much needed investments and acting as a catalyst for attracting other donor funding into the sector, but also by helping to establish professional sector management in its broadest sense. This operation will help respond to the situation by financing several critical components of transport infrastructure around the country.

The Liberia Public Sector Modernization Project was approved in February 2014 for US$2.0 million from IDA and US$8.7 million from other donors including USAID and SIDA to improve pay and performance management in participating ministries, and strengthen payroll management in the Civil Service in Liberia. The project has four key components: (i) *Improve Pay Management*. This component addresses the challenge of the civil service to attract and retain competent managerial and professional staffs and low levels of motivation and engagement among existing civil servants which undermines individual work effort; (ii) *Strengthened Payroll Management*. This component addresses the lack of effective payroll discipline that has facilitated entries into the payroll without due process and weak establishment control leading to escalating wage bill; (iii) *Improved Performance*. This third component addresses the challenge of management's ability to hold staff responsible for their performance in ensuring service delivery. The final component, (iv) *Project and Program Management* supports the coordination and delivery of project inputs and overall implementation program.

The World Bank portfolio in Liberia continues to be affected by long effectiveness delays and implementation problems, both of which have seriously affected disbursements in the current fiscal year.

C. Economic and Sector Work

The World Bank has completed a comprehensive Public Expenditure Review (PER), which explores various options for fiscal space enlargement. Given the large amount of additional expenditure required for the implementation of the government's second Poverty Reduction Strategy- the Agenda for Transformation, it is critical that all options are examined to accommodate these expenditures. The PER focuses on measures for: (a) improving the efficiency of public expenditure; (b) increasing the amount of external grants; (c) mobilizing greater revenue from taxes, non-tax revenue and natural resources; and (d) public sector borrowing.

The World Bank has also completed a human development Public Expenditure Review (PER) covering the education, health and social protection sectors. Public spending on the human development sector in Liberia is low by Sub-Saharan Africa (SSA) standards. The PER therefore examines a number of key public expenditure issues affecting progress in attaining the MDGs. The Review considers the sources and levels of funding, budgetary allocations across and within the sectors, and the quality, equity and efficiency of public expenditure on human development.

The **Liberia Poverty Reduction Support Credit** was approved in June 2013 for US$10 million. The objectives of the operation are to sustain and deepen government-owned efforts to reform governance and civil service, and to support the broadening of reforms to include economic transformation and human development in the context of the implementation of the Agenda for Transformation. Specifically, these reforms are focused on: (i) strengthening governance with particular emphasis on transparency and accountability to reduce corruption, and enhance budget execution and oversight; (ii) creating the environment for economic transformation through addressing infrastructure constraints; land tenure issues and agricultural credit; and (iii) improving human capital development particularly through improved access and quality of education.

D. Financial Relations (as at May 20, 2014)

Active and Disbursing Projects[1]
(Millions of U.S. dollars)

Project	Closing Date	Approval (Fiscal Year)	Net Commitment Amount	Total Disbursed	Of Which: Credit Disbursement	Total Undisbursed Balance
West Africa Power Pool APL	11/29/2017	2010	1.9	1.9	0.0	0.0
LR: Youth, Employment, Skills Project	12/31/2014	2010	6.0	6.2	0.0	0.0
LR-Agriculture & Infrastructure Development Project. ERL	10/31/2014	2008	53.0	50.9	0.0	2.9
LR-Econ. Governance & Institutional. Reform TAL	12/31/2014	2008	18.0	16.8	5.8	1.2
LR-Emergency Monrovia Urban Sanitation	06/30/2014	2010	4.0	3.2	3.2	0.9
LR-Urban and Rural Infra. Rehab. Project	12/31/2015	2009	64.0	63.5	0.0	3.3
West Africa Regional Fisheries Program	12/15/2014	2009	9.0	6.6	0.0	2.3
Liberia Electricity System Enhancement Project	12/31/2014	2012	32.0	9.4	9.4	22.7
West Africa Regional Communications Infrastructure Program	9/30/2015	2011	25.6	22.5	22.5	2.8
West Africa Agricultural Productivity Program APL	6/30/2016	2011	6.0	4.2	4.2	1.8
LR-Road Asset Management Project	6/30/2022	2011	67.7	11.1	11.1	55.6
Liberia Integrated Public Financial Management Reform Project	6/30/2016	2012	5.0	4.9	4.9	0.0
LR-Smallholder Tree Crop Revitalization Support Project	12/31/2016	2012	15.0	2.1	2.1	12.9
LR-Accelerated Electricity Expansion Project (LACEEP)	6/30/2022	2013	35.0	0.2	0.2	36.0
Total	**…**	**…**	**342.2**	**203.5**	**63.4**	**142.4**

[1] Amounts may not add up to original principal due to changes in the SDR/US exchange rate since signing.

IDA Disbursements and Debt Service (Quarterly since HIPC Completion Point)										
US$ Million	**Jul 2010–Jun 2011**	**Jul 2011–Jun 2012**	**Jul–Sep 2012**	**Oct–Dec 2012**	**Jan–Mar 2013**	**Apr–Jun 2013**	**Jul–Sep 2013**	**Oct-Dec 2013**	**Jan-Mar 2014**	**Apr 2014**
Total disbursements	61.83	55.27	16.62	2.18	7.55	13.83	16.19	6.16	2.52	0.3
Repayments	0.33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net disbursements	61.49	55.27	16.62	2.18	7.55	13.83	16.19	6.16	2.52	0.3
Interest and fees	0.05	0.12	0.00	0.02	0.10	0.12	0.02	0.15	0.02	0.03

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK[1]

(As of April 30, 2014)

There are 19 active AfDB projects in Liberia, including two regional projects, with a total commitment of approximately UA 216.6 million, equivalent to US$325 million, of which 27 percent is disbursed. A brief description of these projects is provided below.

1. **Economic Governance and Competitiveness Support Program**: This UA 30 million budget support operation aims to (i) improve PFM systems; (ii) strengthen tax and customs administration including transparency and accountability of revenue from the extractive industry; and (iii) improve business enabling environment for private sector development. It will also increase the government's fiscal space for pro-poor expenditure in line with the PRS. The program is an integral part of a broader set of interventions of the AfDB designed to support good financial and economic governance. The last tranche of UA 8 million was disbursed in December 2013. The project is considered as closing on June 30, 2014.

2. **Integrated Public Financial Management Reform Project (IPFMRP)**: The ADB's UA 3.0 million grant support for this project was approved on September 10, 2012. Supported by four donors—the ADB, World Bank, USAID, and SIDA—this US$28.55 million project represents an innovative approach for the Bank to support a comprehensive government program for PFM reform. By using a pooled funding arrangement, the project harmonizes support from the four donors, increasing development effectiveness while decreasing the administrative burden on the Government. The project has five components, which are mutually reinforcing: (i) enhancing budget planning and credibility; (ii) strengthening budget execution, accounting and reporting; (iii) strengthening revenue administration; (iv) enhancing transparency and accountability; and (v) project management and capacity building.

3. **Regional Payment Systems Development Project**: This UA 5 million supplementary grant enables Liberia to join the West Africa Monetary Zone (WAMZ) Payments System Development Project. The project aims to improve the financial sector basic infrastructure in the WAMZ region through the upgrade of the payments systems of The Gambia, Guinea, Sierra Leone, and Liberia. The project components include: Real Time Gross Settlement (RTGS) system; Retail Payments Automation (RPA), a clearing system comprising Automated Checks Processing (ACP); Automated Clearing House (ACH); Central Banking Applications (CBA) system; and telecommunication infrastructure. The project will increase participation in the formal financial sector and enhance financial flows at the regional level.

[1] Prepared by the African Development Bank.

4. **Liberia–Urban Water Supply and Sanitation Project (UWSSP)**: This UA 25.2 million grant project aims to improve Monrovia's water and sanitation facilities. The project will: (i) provide access to adequate, safe and reliable water supply and public sanitation services in Monrovia, Buchanan, Kakata, and Zwedru; and (ii) enhance the institutional, operational, management capability, and the long-term financial viability of LWSC. The Project's components are: (i) Rehabilitation and augmentation of water treatment and distribution systems; (ii) Provision of public sanitation facilities; (iii) Institutional support; (iv) Environmental and Sanitation Sensitization.

5. **Agriculture Sector Rehabilitation Project (ASRP)**: This UA 18.4 million project cost is financed by a UA 12.5 million grant from the Bank, UA 3.4 million grant from IFAD, and the balance financed in kind by the Government of Liberia. The project covers eight of the fifteen counties in Liberia. The overall goal of the Agriculture Sector Rehabilitation project is to contribute to food security and poverty reduction. Its specific objective is to increase the income of smallholder farmers and rural entrepreneurs including women on a sustainable basis. The project is implemented under three components: Agriculture Infrastructure Rehabilitation; Agricultural Production and Productivity Improvement; and Project Management, with Agriculture infrastructure constituting 60 percent of the cost.

6. **Smallholder Agricultural Productivity Enhancement and Commercialization (SAPEC) Project**: This UA 34.08 million project will be funded by a UA 29.08 million grant from the Global Agriculture and Food Security Program (GAFSP), a UA 4.0 million ADF loan, and UA 1.0 million by in-kind contributions from the Government of Liberia. The Intervention seeks to reduce rural poverty and household food insecurity by increasing income for smallholder farmers and rural entrepreneurs particularly women, youths and the physically-challenged. SAPEC will be implemented in 12 of the 15 counties of Liberia over 2014 to 2017 and seeks to scale-up the on-going Agricultural Sector Rehabilitation Project (ASRP). The project consists of four components, namely: (i) Sustainable Crop Production Intensification; (ii) Value Addition and Marketing; (iii) Capacity Building and Institutional Strengthening; and (iv) Project Management.

7. **Maryland Oil Palm Plantation (MOPP) – Private Sector**: The project is located in Maryland and Grand Kru Counties, South East Liberia and entails the following (i) clearing, rejuvenating, and operating a 9,000 hectare abandoned palm oil plantation (DOPC) in Maryland county; (ii) development of two oil palms nurseries; (iii) establishment of a 6,000 hectare of out grower farmer scheme benefitting 750 families; and (iv) construction of an oil mill with a processing capacity of 90 tons of fresh fruit bunches ("ffb)" per hour with construction to begin in 2016. The project cost totals USD 203.3 million with USD 164.9 million to finance the industrial component and USD 38.4 million for the out grower scheme.

8. **The Labor-Based Public Works Project (LBPWP)**: The UA 20.24 million grant project aims to contribute to the improvement of productive livelihoods and service delivery. The project objective is to rehabilitate socio-economic infrastructure and improve capacities for infrastructure maintenance. Its components are: i) Rehabilitation of Socio-Economic Infrastructure; and ii) Capacity Development for Infrastructure Maintenance; and iii) Project

Management. In 2011 the Bank provided a UA 5.00 million supplementary grant from the Fragile States Facility (FSF) to enable the financing of additional costs resulting from improved designs of the project infrastructure.

9. **Equity investment of US$1.2 million in the share capital of Access Bank (ABL)**: Access Bank Liberia (ABL) is a start-up microfinance bank sponsored in 2009/2010 by Access Microfinance Holding AG, with co-support by the International Finance Corporation (IFC) and the European Investment Bank (EIB). A capital increase of US$209,000 was approved in 2012.

10. **Rural Water, Sanitation and Hygiene Program Development Study**: This UA 924,138 study intends to inform the Government of Liberia on the most appropriate options for delivering sustainable and equitable access to safe and affordable drinking water supply, basic sanitation, and hygiene services in rural areas. The outputs of the study will include: (i) National Program and Investment Plan for Rural Water, Sanitation and Hygiene services; (ii) Program Implementation Manual; (iii) Monitoring and Evaluation Framework; (iv) Operational and Maintenance Plan; and (v) draft Mobilization White Paper.

11. **Fostering Innovative Sanitation and Hygiene in Monrovia**: The objective of the grant of Euro 1.2 million from the African Water Facility administered by the ADB is to increase access to sustainable and affordable sanitation services with improved hygiene and livelihood for Monrovia's urban poor. The specific objectives include: (a) increase access to safe, sustainable and affordable sanitation services; (b) reduce the vulnerability of the urban poor populace to WASH related diseases caused by water contamination; and (c) implement an effective, efficient and sustainable FS management system with production of affordable FS fertilizer to increase scalable food security.

12. **Paving Fish Town – Harper Road Project (Phase I)**: The objective of the Project is to provide efficient road transport access to South East Counties of Liberia and, by extension, to neighboring Mano River Union States. The project will involve upgrading from gravel to bitumen standard the Fish Town–Harper Road (Phase 1): Harper–Karloken section (50km) at an estimated cost of UA 43.04 million including GoL counterpart funding of UA 1.0 million. The expected outcomes include: (a) improved socio-economic inclusion of population in south-east region; (b) attraction of investments with employment creation and stronger government presence; (c) facilitated cross-border trade in MRU member states; and (d) employment generation during construction and post construction phase.

13. **Regional Electricity Interconnection Project: Cote d'Ivoire, Liberia, Sierra Leone and Guinea**. The Côte d'Ivoire, Liberia, Sierra Leone and Guinea (CLSG) electricity networks interconnection project involves the construction of a 1,357-km-long double circuit high voltage (225 kV) line to connect the national networks of the four countries. The construction of this line is part of the backbone of the Mano River Union countries and the priority projects of the West African Power Pool (WAPP) Master Plan. The project will help establish a dynamic electric power market in the West African sub-region and secure power supply for participating countries which have a comparative advantage in importing power rather than producing it at high costs

using their national systems. The project, estimated at an overall cost of UA 331.51 million will be implemented over the 2014–17 period. The contribution of the Bank Group (ADF, FSF and NTF) amounts to UA 128.15 million (or 38.66 percent of the total cost). The direct beneficiaries of the project are the residents of its impact area (24 million inhabitants) who will have reliable electric power at competitive cost. The project will raise the average electricity access rate in the four countries from 28 percent in 2012 to 33 percent by 2017. The increased electricity access will generally contribute to improving the welfare of the beneficiaries and lead to the development of social and income-generating activities.

14. **Technical Assistance from Fragile States Facility and other Trust Funds**:

a. **LEITI - Phase II**: US$409,000 grant assistance for Multi-Stakeholders Group costs; communication and outreach, staff training and capacity building of actors involved in extractive industries transparency related activities.

b. **Institutional Development and Capacity Building Support to the Governance Commission**: UA 438,338 grant assistance to strengthen the capacity of the Governance Commission and to accelerate the implementation of governance reforms.

c. **Technical Assistance for Services of Procurement Specialist/Transport Engineer to Support Ministry of Public Works**: UA 117,000 grant to strengthen the capacity of the Ministry of Public Works in conducting construction, rehabilitation and maintenance works of socio-economic infrastructure including roads.

d. **Promoting local, participatory governance for County Development Funds**: UA 180,000 grant to minimize corruption and ensure effective delivery of development initiatives in the 15 counties of Liberia by: (i) increasing the public's awareness of the two major funds—The County Development and Social Development Funds—allocated for development in the counties; (ii) building the capacity of 750 youths (50 per county including adolescent girls and young women) to engage decision makers and managers of the funds; and (iii) actively participating in the planning, monitoring, and reporting on the funds.

e. **Capacity Building and Technical Support to the National Housing Authority**: UA 240,000 grant to develop capacity for architects, engineers, draftsmen and surveyors to oversee effectively the design and implementation of housing projects. The capacity building will also concern internal functions like budgeting, monitoring, procurement and financial reporting and IT systems.

STATISTICAL ISSUES

(As of April 30, 2014)

I. Assessment of Data Adequacy for Surveillance
General: Data have serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in the areas of national accounts, government finance, and balance of payments statistics.
National Accounts: Comprehensive national accounts data are not available. Fund staff estimate GDP by activity using the production approach and primary source data provided by the Liberia Institute of Statistics and Geo-Information Services (LISGIS). Estimates for GDP by expenditure are not available. Liberia participates in the National Accounts Module of the UK Department for International Development-supported Enhanced Data Dissemination Initiative (EDDI), which aims to strengthen annual national accounts, and to improve price statistics. During July–August 2012, the LISGIS, assisted by an STA mission, conducted a second round of National Accounts Annual Survey (NAAS 2012) collecting information for the years 2010 and 2011. The World Bank has also appointed a consultant to guide the LISGIS in various aspects of the survey. A Household Income and Expenditure (HIES) Survey being conducted during the calendar year 2014 will provide data from which estimates of household consumption may be developed. Through its technical assistance missions within the EDDI project, STA will continue to provide guidance on the use of existing and new source data to compile national accounts estimates and to build capacity in LISGIS to produce reliable national accounts statistics on an ongoing basis. With improved data sources (especially NAAS 2012 and HIES 2014), it is expected that reliable GDP estimates should be available by end-2014.
Price Statistics: In January 2007, the authorities formally adopted the Harmonized Consumer Price Index (HCPI). The HCPI is based on an expanded basket of goods and services consistent with the Economic Community of West African States (ECOWAS) harmonized market basket, The index reference base has also been changed from May 1998 = 100 to December 2005=100. The HCPI covers only the Greater Monrovia and there is a need to extend the HCPI to include all the counties.
Government Finance Statistics: The Ministry of Finance is in the process of phasing-in the *GFSM 2001* framework. There is still a number of areas where the government finance statistics need to be improved: lack of a legal framework to collect GFS; limited data sharing and coordination among data-producing agencies; inconsistent institutional coverage of the general government in other datasets (e.g., national accounts and monetary statistics); omission of some externally funded flows and nonmonetary transactions; missing data on stocks of other accounts payable and contingent liabilities; and incorrect reference exchange rate to convert data from Liberian dollars to U.S. dollars.
Monetary and Financial Statistics: The Central Bank of Liberia (CBL) has made progress in adopting the statistical methodology recommended by the IMF's *Monetary and Financial Statistics Manual (MFSM)*. A MFS mission in April 2013 provided assistance to the authorities with their implementation of standardized report forms (SRFs).

Financial sector surveillance: Only basic market based indicators are available, and their coverage, valuation and timeliness vary across such indicators. Data are not sufficiently available to conduct stress tests of the banking system or Balance Sheet Approach analysis. Cross border exposure data for financial corporations are not available.
External sector statistics: Reporting is not comprehensive, and Fund staff prepares provisional balance of payments statistics for surveillance. Although some progress in collecting and reporting data has been made with STA support, most of the 2011 TA mission recommendations have not been implemented; several areas need improvement, particularly with regard to primary source data, methodology, compilation practices, and frequency and timeliness in data dissemination. In spite of some recent improvements in FDI and customs data, most of the coverage needs to be further improved, especially for: i) foreign direct investment, including direct investment in kind, that is likely to become significant as plans are underway for foreign companies to invest in mining activities; ii) technical assistance services, development aid, and compensation paid to locally employed workers of international organizations, which have a very large presence in Liberia; iii) banking sector transactions, as relevant monetary and financial statistics data are not used for balance of payments and there is a lack of financial account entries for the banking sector; and iv) other areas such as remittances, investment income, and the overall coverage of the financial account. A recent TA mission agreed with the authorities an action plan that consists on: 1) transmission of revised data by June–July 2013 that will include methodological reclassifications, flows for the banking sector, and inclusion of new data received in the last months; and 2) to compile by end of 2013, FDI data for 2012 based on a new FDI survey. However, as of end-May, 2014, data revisions have not yet been submitted to STA. A follow-up mission is scheduled for summer 2014.

II. Data Standards and Quality	
Participant in the General Data Dissemination System (GDDS) since October 2005. Metadata for most data categories were updated in January 2013.	No Data Module of the Reports on the Observance of Standards and Codes (data ROSC) mission has been conducted.

III. Reporting to STA
The authorities report, for the related publications (*IFS, GFSY, and BOPSY*), annual balance of payments data and government finance statistics; the latter with deficiencies in institutional and transactions coverage. The authorities have begun to submit data to STA for publication in the IFS after an extended break and the data are available as of end-February 2014. The authorities provide some financial soundness indicators (FSIs) to the IMF database; however, not all core FSIs are reported and the reported indicators are not timely.

Table of Common Indicators Required for Surveillance							
	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8]	
						Data Quality – Methodological Soundness[9]	Data Quality – Accuracy and Reliability[10]
Exchange Rates	3/31/2014	4/30/2014	D	M	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	3/2014	4/30/2014	M	M	Q		
Reserve/Base Money	3/2014	4/30/2014	M	M	Q		
Broad Money	3/2014	4/30/2014	M	M	Q		
Central Bank Balance Sheet	3/2014	4/30/2014	M	M	Q		
Consolidated Balance Sheet of the Banking System	3/2014	4/30/2014	M	M	Q		
Interest Rates[2]	3/2014	4/30/2014	M	M	Q		
Consumer Price Index	4/2014	5/20/2014	M	M	Q		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA		
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	4/2014	5/27/2014	M	Q	I		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	4/2014	5/27/2014	Q	Q	I		

Table of Common Indicators Required for Surveillance (concluded)							
	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8]	
						Data Quality – Methodological Soundness[9]	Data Quality – Accuracy and Reliability[10]
External Current Account Balance	3/2014	6/03/2014	Q	Q	Q		
Exports and Imports of Goods and Services	3/2014	4/30/2014	M	M	Q		
GDP/GNP	1992	NA	A	I	I		
Gross External Debt	3/2014	5/20/2014	Q	Q	Q		
International Investment Position[6]	NA	NA	NA	NA	NA		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

[9] This reflects the assessment provided in the data ROSC or the Substantive Update (published on ..., and based on the findings of the mission that took place during...) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

[10] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

INTERNATIONAL MONETARY FUND

LIBERIA

June 17, 2014

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS UPDATE[1]

Approved By

Abebe Aemro Selassie and Chris Lane (IMF); Jeffrey Lewis and Marcelo Giugale (IDA)

The updated Debt Sustainability Analysis indicates that Liberia's risk of external debt distress remains low. The present value of the external debt stock is projected to remain sustainable with all external debt indicators below the policy-related thresholds. Nonetheless, the pace of new borrowing has accelerated over the past year. This rapid accumulation of new loan commitments remains broadly consistent with the temporary scaling up of public investment envisaged under the program, but the authorities should continue to prioritize new financing for strategic projects on highly concessional terms to ensure that public debt remains sustainable.

[1] This document is the annual update of the analysis presented at the time of the current ECF request in November 2012 (IMF Country Report No. 12/340).

KEY ASSUMPTIONS UNDER THE BASELINE SCENARIO

1. **The Debt Sustainability Analysis (DSA) update indicates that Liberia continues to have a low risk of debt distress**. Although recent external debt accumulation, on a contractual basis, has been faster than initially envisaged, the pace of disbursements has been slower than anticipated. Compared with the last DSA update, the medium-term external debt profile (2014–17) is somewhat less favorable due to a relatively slower real GDP growth and a larger stock of restructured loans. However, the long-term debt profile is more favorable, with the improvement coming from higher nominal GDP after 2020. External debt would rise to 17.6 percent of GDP in FY2014, from 12.2 percent of GDP in FY2013, and would peak at 32.8 percent of GDP in FY2021, while in the previous update external debt would peak at 34.2 percent of GDP by FY2022. Public sector debt would rise from 13.7 percent of GDP in FY2013 to 20.1 percent of GDP in FY2014, peaking at 34.9 percent of GDP in FY2021 (compared with 39.3 percent in the previous update).

2. **The analysis reflects the impact of the following changes compared with the previous DSA update**.

- ***GDP growth and current account developments***. Compared with the December 2013 DSA update, the medium-term real GDP growth forecast has been revised slightly downward, mainly due to delays in mining activity, trends in world iron-ore prices and unresolved issues in the forestry sector. At the same time, higher projected inflation is raising nominal GDP.[2] In the long run, the effect of higher inflation on nominal GDP dominates. The current account deficit is projected to only gradually narrow over the projection period, reaching about 15 percent of GDP by 2030. It will continue to be sustainably financed by FDI and private flows associated with mining and forestry concessions.

- ***Restructured Loans***. **The Government of Liberia has completed the restructuring of pre-HIPC external debt with several creditors including** EIB/EU, ECOWAS, BADEA,[3] OFID, Kuwait, Saudi Arabia, ADB-NTF[4] and France. Overall the terms of the restructurings are less favorable than previously assumed. As a result, the end-June 2013 external debt stock (US$123 million, excluding loans from the IMF and Taiwan, Province of China) is US$26 million higher than envisaged in the previous DSA. There has been no progress on the restructuring of the Taiwanese loan.

[2] At the time of the 2nd ECF review staff lowered projected inflation over the long-run to reflect the lower utility costs associated with the execution of infrastructure projects in the energy sector. The projected inflation path has been revised upward to take into account real appreciation pressures from higher mining exports and to ensure consistency of long-run U.S. dollar inflation with the growth of the U.S. GDP deflator.

[3] BADEA: Arab Bank for Economic Development in Africa.

[4] ABD-NTF: African Development Bank-Nigeria Trust Fund.

- ***New external loan agreements***. After initial delays in securing external financing, the amount of newly-contracted external loan agreements has increased significantly since FY2013. The amount of external post-HIPC loan agreements ratified before the current ECF program (which started in November 2012) is US$142 million. From November 2012 to December 2013, excluding the ECF credit, the sum of ratified loan agreements amounts to US$377 million, with another US$228.3 million signed external loan agreements pending ratification. The amount of loans under negotiation is about US$476 million, of which US$416 million will be from IDA and the AfDB on highly concessional terms. In line with this rapid contracting of external loan agreements, the baseline macro-framework reflects higher borrowing and disbursements (US$3.5 billion, compared with US$2.9 billion in FY2014–FY2033 in the previous DSA update).

- ***Despite the rapid increase in contracted external loans, actual disbursements have been slow***. Excluding the ECF credit, only US$45 million (out of US$519 million ratified post-HIPC loan contracts) has been disbursed by the end of FY2013. Therefore, in the baseline scenario, although we assume that total disbursements will increase by about 20 percent between FY2014 and FY2033 compared with the amount assumed in the last DSA update, most of the increase is assumed to materialize after FY2023 (total disbursements between FY2014 and FY2022 are now assumed to be close to US$1.5 billion compared with US$1.4 billion in the previous DSA update).

PUBLIC AND EXTERNAL DEBT SUSTAINABILITY

3. **The external debt profile is less favorable than in the previous DSA update in the medium term but more favorable in the long term**. Compared with the last DSA update, due to slower real GDP growth and a larger stock of restructured loans, all external public and publicly-guaranteed (PPG) debt indicators (including the debt-to-GDP ratio) are now higher during 2014–17. The public sector debt-to-GDP ratio is also higher during the same period (Figures 1, 2 and Tables 1, 2). In the long term, however, despite the assumption of larger disbursements, the projected higher nominal GDP leads to more favorable external and public debt-to-GDP ratios.

4. **Stress tests indicate that external and public debt would remain sustainable, even under extreme scenarios, although the baseline forecast is subject to significant risks** (Figures 1, 2 and Tables 3, 4). On the upside, the baseline scenario only reflects the two mining projects currently under exploitation, although two additional major projects in their developmental phase are expected to come on stream around 2018. Furthermore, there is a potential for an upward revision of the GDP base,[5] which would lower debt-to-GDP ratios. On the downside, delays in the coming on stream of new mining projects could also lead to lower growth and government revenues. In the stress test of the new probability approach, Liberia's external public and publicly-guaranteed (PPG) debt-to-GDP ratio temporarily exceeds the threshold (Figure 4). However, given

[5] A revised set of national accounts for 2008–13 is expected to be published by the end of 2014.

that other debt distress measures are well below the thresholds, staff's view is that Liberia's external risk rating should remain "low". Public sector debt also continues to be sustainable, although the debt-to-GRP ratio and the debt-to-revenue ratio would increase in the long run under the scenario with a fixed primary balance (Figure 2 and Table 4).

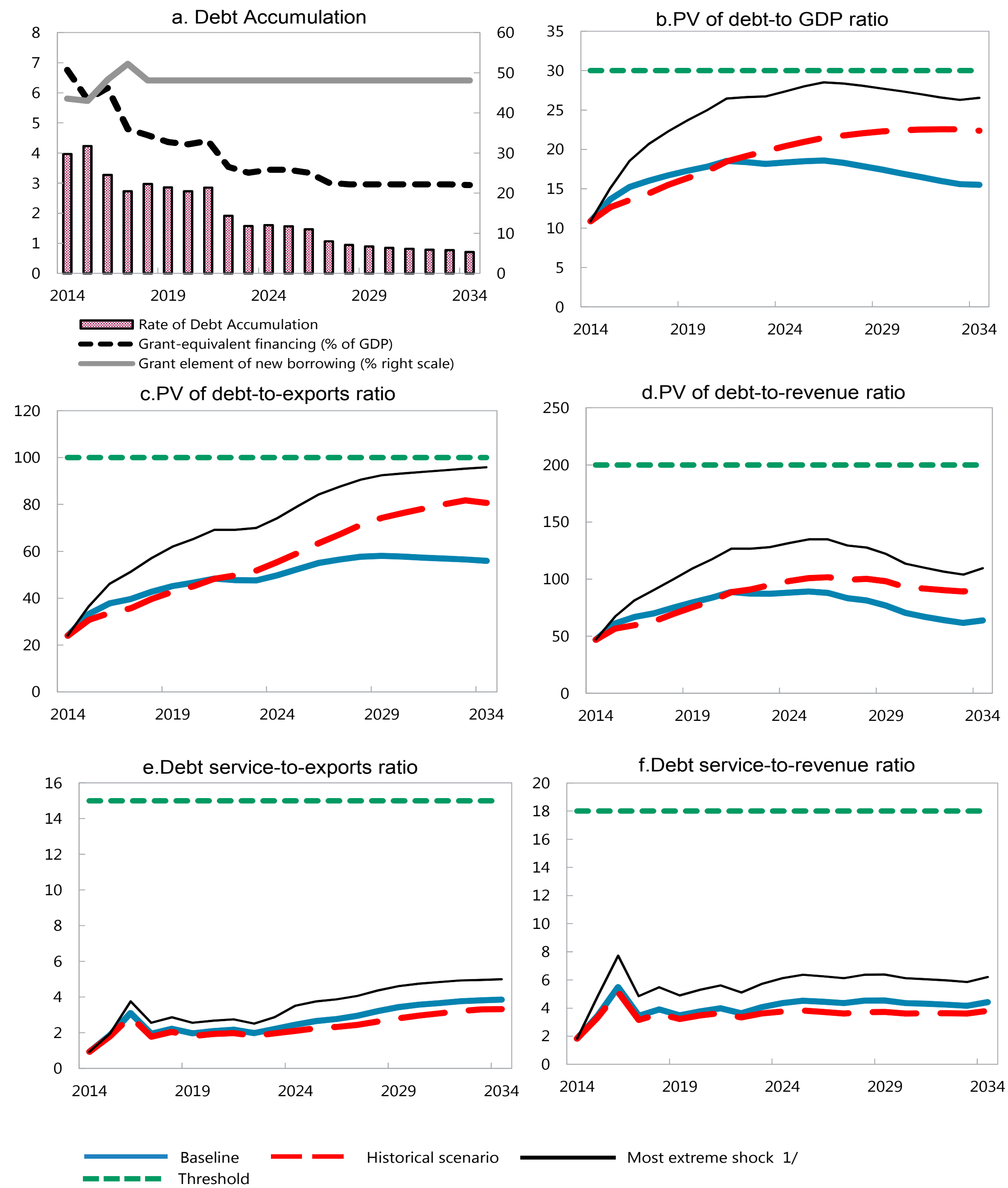
5. **While not an immediate concern for debt sustainability, the rapid pace of new borrowing might trigger a change in the external risk rating if it were to be sustained over the medium term**. In an alternative scenario, we assume that the government will sign another US$1.1 billion in new loan agreements (which is the same as the total amount of loan agreements that have been signed or in pipeline since the start of the current ECF program) from FY2016 to FY2018 so that the total amount of newly-signed external loans would be US$2.2 billion between FY2013 and FY2018. Whether this "sustained borrowing scenario" will result in a change of external risk rating depends on whether the faster contracting of loans would lead to an increase in total disbursements. In the baseline scenario, we assume that all loans signed before FY2015 will be disbursed before FY2021. Therefore, in the "sustained borrowing scenario" we assume all loans signed between FY2016 and FY2018 will be disbursed before FY2024 and that no other new loans will be signed from FY2019 to FY2024. This implies an increase of total disbursement by US$0.45 billion, compared with the baseline scenario. As shown in Figure 3, this will result in a change in the external risk rating from "low" to "medium".

6. **The authorities agreed with the assessment that external risk rating remains to be low**. They also emphasized that the large amount of new borrowings will finance the important infrastructure projects that contribute to addressing the country's binding growth constraints.

CONCLUSION

7. **The updated DSA shows that Liberia's debt profile remains sustainable under most scenarios**. Under the ECF-supported program, the government's borrowing plans are consistent with implementation of its poverty reduction strategy, the Agenda for Transformation. In particular, the government is actively seeking financing for strategic projects in the energy and transportation sectors in order to address the main binding constraints to broad-based economic growth. However, it must also be noted that, if the fast borrowing pace continues, a change in the external risk rating might be triggered. This highlights the need for the authorities to prioritize new financing for strategic projects and on highly concessional terms to ensure that public debt remains sustainable. Further strengthening project preparation, procurement, and monitoring would also help ensure that public investment is of high quality.

Figure 1. Liberia: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2014–34[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Terms of borrowing shock; in c. to a Terms of borrowing shock; in d. to a Terms of borrowing shock; in e. to an Exports shock and in figure f. to a One-time depreciation shock. In the alternative scenarios of external DSA, historical average and standard deviation of major variables are calculated by using the data from 2008 due to the structural change of the economy.

Table 1. Liberia: External Debt Sustainability Framework, Baseline Scenario, 2011–34
(Percent of GDP, unless otherwise indicated)

	Actual			Historical [7/]	Standard [7/]	Projections									
				Average	Deviation							2014-2019			2020-2034
	2011	2012	2013			2014	2015	2016	2017	2018	2019	Average	2024	2034	Average
External debt (nominal) 1/	**13.2**	**11.8**	**12.2**			**17.6**	**22.6**	**26.3**	**28.3**	**29.7**	**30.7**		**31.8**	**26.0**	
of which: public and publicly guaranteed (PPG)	13.2	11.8	12.2			17.6	22.6	26.3	28.3	29.7	30.7		31.8	26.0	
Change in external debt	2.0	-1.4	0.3			5.5	5.0	3.6	2.0	1.4	1.0		0.1	-0.1	
Identified net debt-creating flows	1.3	-0.4	1.4			3.5	4.1	3.2	1.9	1.1	1.0		-0.1	0.5	
Non-interest current account deficit	**36.8**	**31.7**	**31.4**	**27.2**	**12.1**	**40.8**	**40.5**	**27.8**	**22.6**	**28.8**	**30.1**		**16.7**	**15.2**	17.8
Deficit in balance of goods and services	95.6	84.5	72.1			72.0	66.4	48.8	39.4	40.9	39.3		19.6	17.4	
Exports	44.5	48.7	49.2			45.3	41.1	40.2	40.4	39.1	38.2		36.9	27.7	
Imports	140.1	133.2	121.3			117.3	107.5	89.0	79.8	80.0	77.5		56.4	45.1	
Net current transfers (negative = inflow)	-73.1	-66.8	-57.9	-102.7	36.4	-48.8	-41.1	-34.5	-29.5	-24.9	-21.1		-12.3	-8.1	-11.3
of which: official	-28.4	-26.8	-25.2			-24.2	-22.8	-21.0	-19.2	-17.3	-15.6		-10.9	-7.1	
Other current account flows (negative = net inflow)	14.3	14.0	17.2			17.6	15.2	13.6	12.7	12.9	11.9		9.4	5.9	
Net FDI (negative = inflow) 2/	**-34.1**	**-30.4**	**-28.8**	**-17.8**	**18.3**	**-36.5**	**-35.5**	**-23.4**	**-19.0**	**-25.6**	**-26.9**		**-15.6**	**-14.5**	-16.9
Endogenous debt dynamics 3/	**-1.5**	**-1.7**	**-1.2**			**-0.7**	**-0.8**	**-1.2**	**-1.7**	**-2.1**	**-2.2**		**-1.1**	**-0.1**	
Contribution from nominal interest rate	0.1	0.1	0.1			0.1	0.2	0.2	0.3	0.3	0.3		0.3	0.3	
Contribution from real GDP growth	-0.7	-0.9	-0.9			-0.8	-1.0	-1.4	-1.9	-2.4	-2.4		-1.5	-0.4	
Contribution from price and exchange rate changes	-0.9	-0.9	-0.4			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**0.7**	**-1.0**	**-1.1**			**2.0**	**0.9**	**0.4**	**0.1**	**0.3**	**0.0**		**0.2**	**-0.7**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	7.7			10.9	13.7	15.2	16.0	16.7	17.3		18.3	15.5	
In percent of exports	...	...	15.6			24.0	33.2	37.8	39.6	42.8	45.2		49.7	55.9	
PV of PPG external debt	**...**	**...**	**7.7**			**10.9**	**13.7**	**15.2**	**16.0**	**16.7**	**17.3**		**18.3**	**15.5**	
In percent of exports	**...**	**...**	**15.6**			**24.0**	**33.2**	**37.8**	**39.6**	**42.8**	**45.2**		**49.7**	**55.9**	
In percent of government revenues	**...**	**...**	**27.8**			**47.0**	**61.4**	**66.8**	**70.0**	**74.9**	**79.7**		**88.2**	**63.9**	
Debt service-to-exports ratio (in percent)	**0.7**	**0.9**	**0.8**			**0.9**	**1.9**	**3.1**	**2.0**	**2.2**	**2.0**		**2.5**	**3.9**	
PPG debt service-to-exports ratio (in percent)	**0.7**	**0.9**	**0.8**			**0.9**	**1.9**	**3.1**	**2.0**	**2.2**	**2.0**		**2.5**	**3.9**	
PPG debt service-to-revenue ratio (in percent)	**1.3**	**1.6**	**1.4**			**1.8**	**3.4**	**5.5**	**3.4**	**3.9**	**3.5**		**4.4**	**4.4**	
Total gross financing need (Millions of U.S. dollars)	42.8	28.8	55.3			94.3	128.1	141.9	122.7	130.3	141.2		116.7	209.7	
Non-interest current account deficit that stabilizes debt ratio	34.8	33.1	31.1			35.3	35.4	24.2	20.6	27.4	29.1		16.6	15.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.0	8.1	8.5	7.4	1.9	7.3	6.4	7.0	8.3	9.6	9.3	8.0	5.0	1.5	5.2
GDP deflator in US dollar terms (change in percent)	8.8	7.0	3.6	6.6	2.4	3.1	3.6	4.0	3.7	3.6	3.5	3.6	2.9	3.7	3.2
Effective interest rate (percent) 6/	1.2	0.8	1.2	1.1	0.3	0.8	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Growth of exports of G&S (US dollar terms, in percent)	25.0	26.6	13.6	17.5	16.4	1.8	0.2	8.7	12.8	9.9	10.6	7.3	4.3	5.7	6.3
Growth of imports of G&S (US dollar terms, in percent)	15.6	10.0	2.4	16.8	25.4	6.9	1.1	-7.9	0.7	13.7	9.6	4.0	5.2	5.1	4.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	43.5	43.0	48.2	52.2	48.1	48.1	47.2	48.1	48.1	48.1
Government revenues (excluding grants, in percent of GDP)	23.7	26.3	27.7			23.1	22.3	22.8	22.9	22.3	21.7		20.8	24.2	22.4
Aid flows (in Millions of US dollars) 8/	40.3	28.3	45.7			80.5	59.6	70.0	56.0	63.6	71.9		119.5	245.5	
of which: Grants	40.3	28.3	45.7			80.5	59.6	70.0	56.0	63.6	71.9		119.5	245.5	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 9/	...	...	...			6.8	5.8	6.2	4.8	4.6	4.4		3.4	2.9	3.3
Grant-equivalent financing (in percent of external financing) 9/	...	...	...			65.0	58.3	63.1	65.2	62.2	63.1		68.9	74.4	70.9
Memorandum items:															
Nominal GDP (Millions of US dollars)	1414	1636	1840			2034	2242	2494	2801	3180	3596		5973	12276	
Nominal dollar GDP growth	16.5	15.7	12.4			10.5	10.2	11.2	12.3	13.5	13.1	11.8	8.0	5.2	8.5
PV of PPG external debt (in Millions of US dollars)			137.0			210.0	296.0	369.4	437.4	520.5	611.1		1077.9	1873.3	
(PVt-PVt-1)/GDPt-1 (in percent)						4.0	4.2	3.3	2.7	3.0	2.9	3.3	1.6	0.7	1.4
Gross workers' remittances (Millions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	7.7			10.9	13.7	15.2	16.0	16.7	17.3		18.3	15.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	15.6			24.0	33.2	37.8	39.6	42.8	45.2		49.7	55.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.8			0.9	1.9	3.1	2.0	2.2	2.0		2.5	3.9	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Includes private financing flows, including for iron-ore related investment which was included in FDI in the previous DSA

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

4/ 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.

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

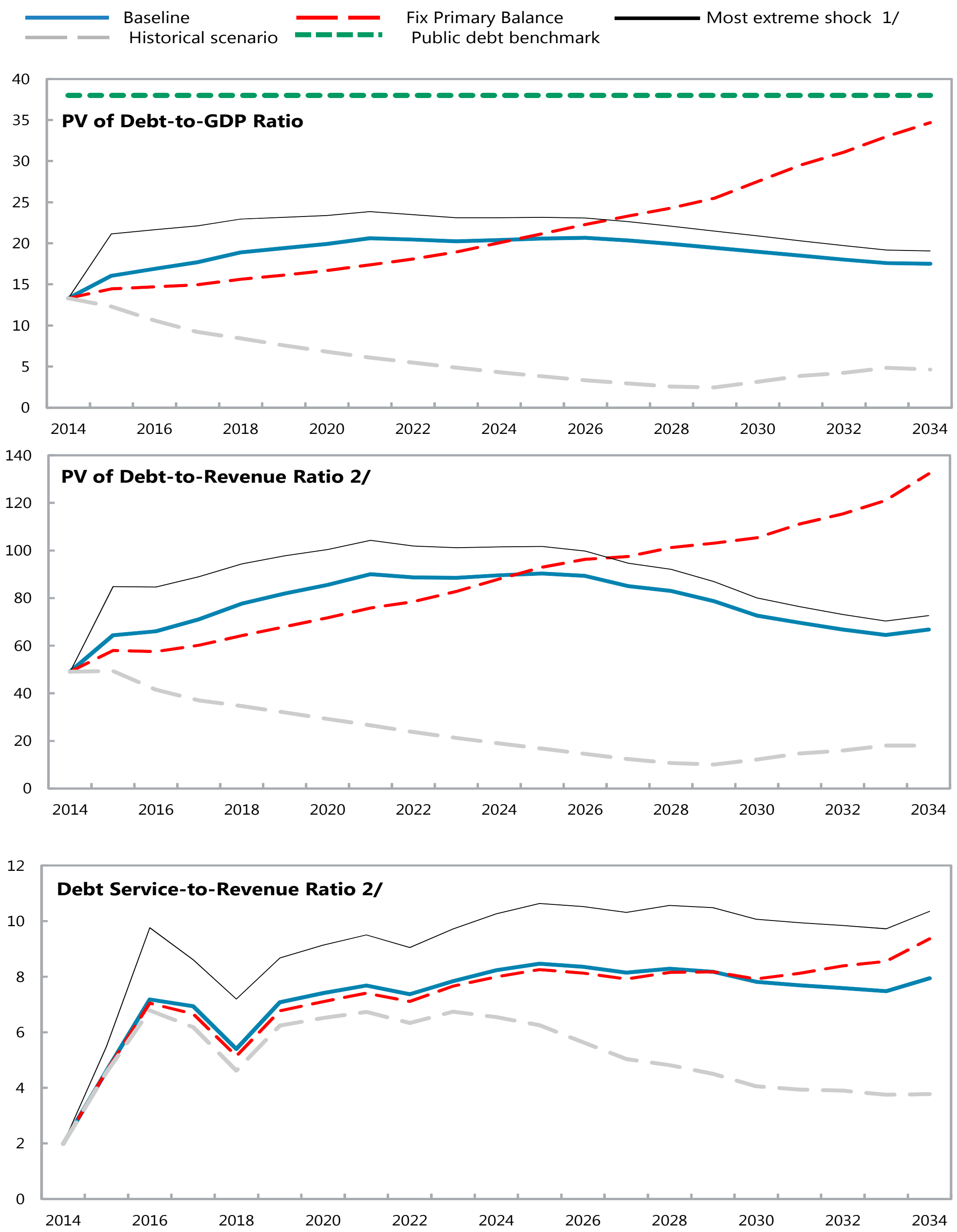
6/ Current-year interest payments divided by previous period debt stock.

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

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

9/ 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).

Figure 2. Liberia: Indicators of Public Debt Under Alternative Scenarios, 2014–34[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.

2/ Revenues are defined inclusive of grants.

Table 2. Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011–34
(Percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	15.1	13.4	13.7			20.1	25.0	28.0	30.0	31.9	32.8		33.8	28.0	
of which: foreign-currency denominated	15.1	13.4	13.7			20.1	25.0	28.0	29.0	30.0	30.9		31.9	26.1	
Change in public sector debt	1.5	-1.7	0.2			6.4	5.0	2.9	2.0	1.9	0.9		0.1	-0.1	
Identified debt-creating flows	-113.9	1.3	0.4			2.7	4.9	2.7	2.3	1.8	0.8		-0.2	-1.1	
Primary deficit	0.4	3.3	1.4	-0.4	2.0	3.6	6.7	5.0	5.1	5.1	4.2	5.0	1.9	-0.1	0.9
Revenue and grants	26.5	28.0	30.2			27.1	24.9	25.6	24.9	24.3	23.7		22.8	26.2	
of which: grants	2.8	1.7	2.5			4.0	2.7	2.8	2.0	2.0	2.0		2.0	2.0	
Primary (noninterest) expenditure	26.9	31.3	31.6			30.7	31.7	30.6	29.9	29.4	27.9		24.7	26.2	
Automatic debt dynamics	-2.0	-2.0	-1.0			-0.9	-1.8	-2.3	-2.8	-3.3	-3.4		-2.1	-1.1	
Contribution from interest rate/growth differential	-1.0	-1.3	-1.1			-0.9	-1.2	-1.7	-2.3	-2.8	-3.0		-1.8	-0.6	
of which: contribution from average real interest rate	-0.1	-0.2	-0.1			0.0	0.1	0.0	-0.2	-0.2	-0.2		-0.2	-0.2	
of which: contribution from real GDP growth	-0.9	-1.1	-1.1			-0.9	-1.2	-1.6	-2.1	-2.6	-2.7		-1.6	-0.4	
Contribution from real exchange rate depreciation	-1.0	-0.7	0.1			0.1	-0.7	-0.7	-0.4	-0.5	-0.5		...	...	
Other identified debt-creating flows	-112.4	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-112.4	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	115.4	-3.0	-0.2			3.7	0.1	0.3	-0.3	0.1	0.2		0.3	1.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	9.2			13.3	16.0	16.9	17.7	18.9	19.4		20.4	17.5	
of which: foreign-currency denominated	...	...	9.2			13.3	16.0	16.9	16.7	17.0	17.5		18.5	15.6	
of which: external	...	...	7.7			10.9	13.7	15.2	16.0	16.7	17.3		18.3	15.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	0.9	3.8	2.3			4.2	7.9	6.8	6.8	6.4	5.9		3.8	2.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	30.5			49.1	64.4	66.1	71.1	77.7	81.9		89.6	66.8	
PV of public sector debt-to-revenue ratio (in percent)	...	...	33.2			57.5	72.1	74.2	77.3	84.6	89.5		98.2	72.3	
of which: external 3/	...	...	27.8			47.0	61.4	66.8	70.0	74.9	79.7		88.2	63.9	
Debt service-to-revenue and grants ratio (in percent) 4/	1.6	1.7	3.0			2.0	4.6	7.2	6.9	5.4	7.1		8.2	7.9	
Debt service-to-revenue ratio (in percent) 4/	1.8	1.8	3.2			2.3	5.1	8.1	7.5	5.9	7.7		9.0	8.6	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.1	5.0	1.2			-2.8	1.8	2.1	3.0	3.2	3.3		1.8	0.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.0	8.1	8.5	7.4	1.9	7.3	6.4	7.0	8.3	9.6	9.3	8.0	5.0	1.5	5.2
Average nominal interest rate on forex debt (in percent)	1.1	0.7	1.2	1.0	0.2	1.4	2.0	1.7	1.3	1.1	1.1	1.4	1.1	1.1	1.1
Average real interest rate on domestic debt (in percent)	-8.0	-5.2	-6.2	-6.5	1.4	...	...	...	...	4.9	1.3	3.1	1.3	0.4	1.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-8.0	-5.1	1.0	-3.9	4.1	0.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	12.0	8.1	7.6	9.5	3.7	12.5	13.1	10.5	9.1	8.5	7.5	10.2	6.1	6.9	6.5
Growth of real primary spending (deflated by GDP deflator, in percent)	24.2	25.7	9.5	6.8	10.7	4.3	9.6	3.3	6.0	7.9	3.6	5.8	5.0	3.9	4.7
Grant element of new external borrowing (in percent)	...	...	...	...	...	43.5	43.0	48.2	52.2	48.1	48.1	47.2	48.1	48.1	...

Sources: Country authorities; and staff estimates and projections.

1/ It includes the gross debt contracted or guaranteed by the central government, excluding borrowing from the Central Bank of Liberia.

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

3/ Revenues excluding grants.

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

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

Table 3. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–34

(Percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	10.9	13.7	15.2	16.0	16.7	17.3	**18.3**	15.5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	10.9	12.6	13.6	14.4	15.5	16.4	**20.4**	22.4
A2. New public sector loans on less favorable terms in 2014-2034 2	10.9	15.0	18.6	20.7	22.3	23.7	**27.3**	26.5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	10.9	13.3	15.1	15.9	16.6	17.3	**18.3**	15.5
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	10.9	14.2	19.3	19.8	20.2	20.5	**20.4**	16.1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	10.9	13.2	14.9	15.7	16.4	17.0	**18.1**	15.3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	10.9	6.4	-8.4	-5.9	-3.4	-1.2	**5.5**	10.7
B5. Combination of B1-B4 using one-half standard deviation shocks	10.9	-1.2	-21.9	-18.4	-14.9	-11.8	**-1.8**	7.8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	10.9	18.6	20.8	22.0	23.0	23.9	**25.4**	21.4
PV of debt-to-exports ratio								
Baseline	24	33	38	40	43	45	**50**	56
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	24	31	34	36	40	43	**55**	81
A2. New public sector loans on less favorable terms in 2014-2034 2	24	36	46	51	57	62	**74**	96
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	24	32	37	39	42	44	**49**	55
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	24	36	57	58	62	64	**66**	69
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	24	32	37	39	42	44	**49**	55
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	24	16	-21	-15	-9	-3	**15**	38
B5. Combination of B1-B4 using one-half standard deviation shocks	24	-3	-57	-48	-40	-32	**-5**	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	24	32	37	39	42	44	**49**	55
PV of debt-to-revenue ratio								
Baseline	47	61	67	70	75	80	**88**	64
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	47	57	60	63	69	75	**98**	92
A2. New public sector loans on less favorable terms in 2014-2034 2	47	67	82	90	100	109	**132**	110
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	47	60	66	69	75	80	**88**	64
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	47	64	85	86	90	94	**98**	67
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	47	59	65	69	74	79	**87**	63
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	47	29	-37	-26	-15	-6	**27**	44
B5. Combination of B1-B4 using one-half standard deviation shocks	47	-6	-96	-81	-67	-55	**-9**	32
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	47	83	92	96	103	110	**122**	88

Table 3. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–34 (Concluded)
(Percent)

Debt service-to-exports ratio

Baseline	1	2	3	2	2	2	**2**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	1	2	3	2	2	2	**2**	3
A2. New public sector loans on less favorable terms in 2014-2034 2	1	2	2	2	3	3	**3**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	1	2	3	2	2	2	**2**	4
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	1	2	4	3	3	3	**4**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	1	2	3	2	2	2	**2**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	1	2	3	1	1	1	**0**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	1	2	3	0	1	1	**-2**	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	1	2	3	2	2	2	**2**	4

Debt service-to-revenue ratio

Baseline	2	3	5	3	4	3	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	2	3	5	3	4	3	**4**	4
A2. New public sector loans on less favorable terms in 2014-2034 2	2	3	4	4	5	5	**6**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	2	3	6	4	4	4	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	2	3	6	4	4	4	**5**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	2	3	6	3	4	3	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	2	3	5	2	2	2	**0**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	2	3	4	1	1	1	**-3**	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	2	5	8	5	5	5	**6**	6
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	46	46	46	46	46	46	**46**	46

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows. Historical averages and standard deviations used in external DSA stress tests are derived from post-2008 data due to structural changes of the economy.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

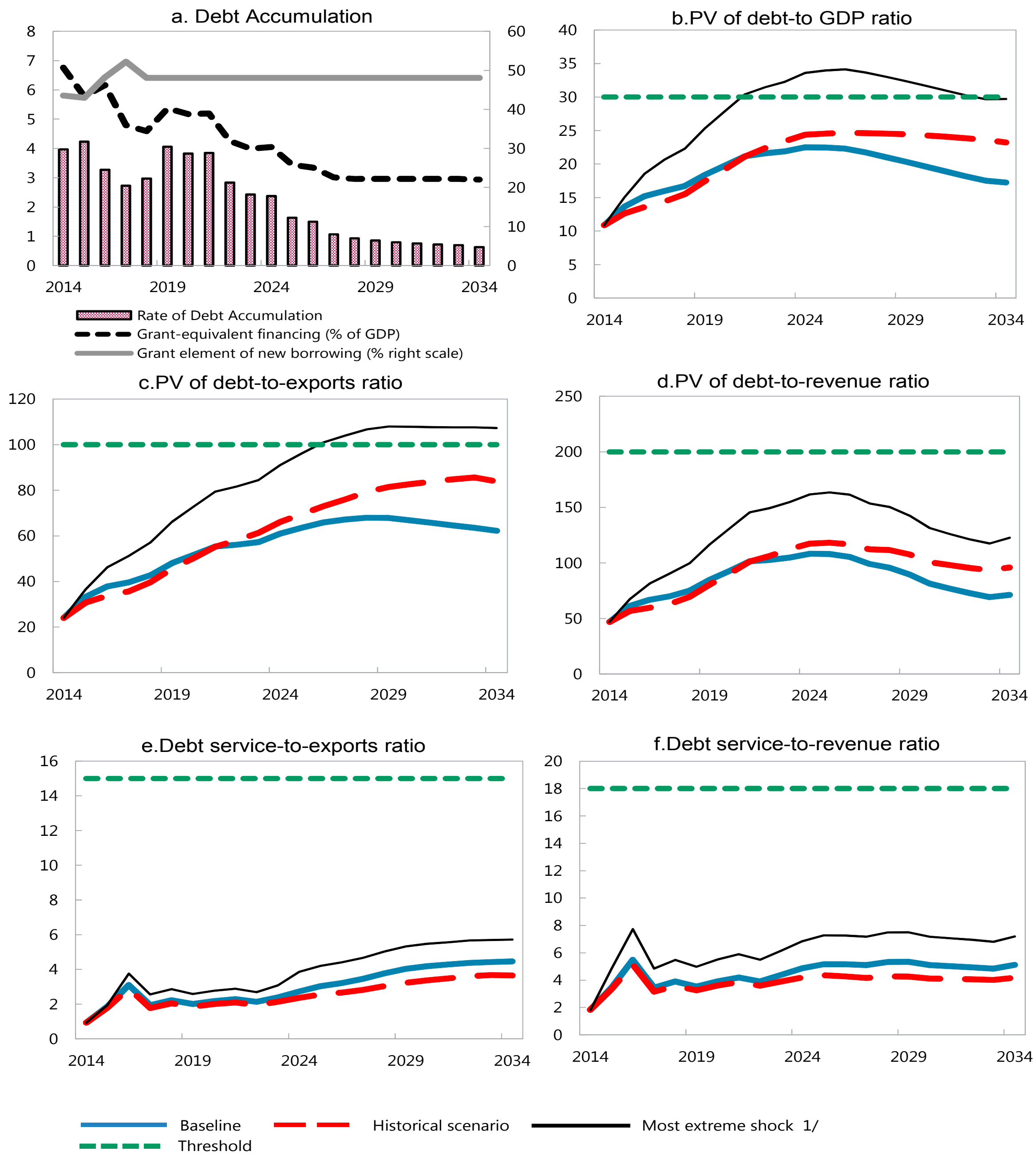
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 4. Liberia: Sensitivity Analysis for Key Indicators of Public Debt 2014–34

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	13	16	17	18	19	19	20	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	12	11	9	8	8	4	5
A2. Primary balance is unchanged from 2014	13	14	15	15	16	16	20	35
A3. Permanently lower GDP growth 1/	13	16	17	18	20	20	23	27
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	13	16	18	19	20	21	23	21
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	13	13	13	14	15	16	18	16
B3. Combination of B1-B2 using one half standard deviation shocks	13	13	12	13	15	16	18	17
B4. One-time 30 percent real depreciation in 2015	13	20	19	19	19	19	19	17
B5. 10 percent of GDP increase in other debt-creating flows in 2015	13	21	22	22	23	23	23	19
PV of Debt-to-Revenue Ratio 2/								
Baseline	49	64	66	71	78	82	90	67
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	49	49	41	37	35	32	19	18
A2. Primary balance is unchanged from 2014	49	58	58	60	64	68	88	132
A3. Permanently lower GDP growth 1/	49	65	67	73	81	86	102	103
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	49	65	69	75	83	88	100	82
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	49	54	50	56	63	69	79	62
B3. Combination of B1-B2 using one half standard deviation shocks	49	52	46	53	61	66	78	63
B4. One-time 30 percent real depreciation in 2015	49	82	76	76	79	80	83	65
B5. 10 percent of GDP increase in other debt-creating flows in 2015	49	85	85	89	94	98	102	73
Debt Service-to-Revenue Ratio 2/								
Baseline	2	5	7	7	5	7	8	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	2	5	7	6	5	6	7	4
A2. Primary balance is unchanged from 2014	2	5	7	7	5	7	8	9
A3. Permanently lower GDP growth 1/	2	5	7	7	6	7	9	9
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	2	5	7	7	6	7	9	9
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	2	5	7	6	5	7	8	8
B3. Combination of B1-B2 using one half standard deviation shocks	2	5	7	6	5	7	8	8
B4. One-time 30 percent real depreciation in 2015	2	5	10	9	7	9	10	10
B5. 10 percent of GDP increase in other debt-creating flows in 2015	2	5	8	8	6	7	9	8

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

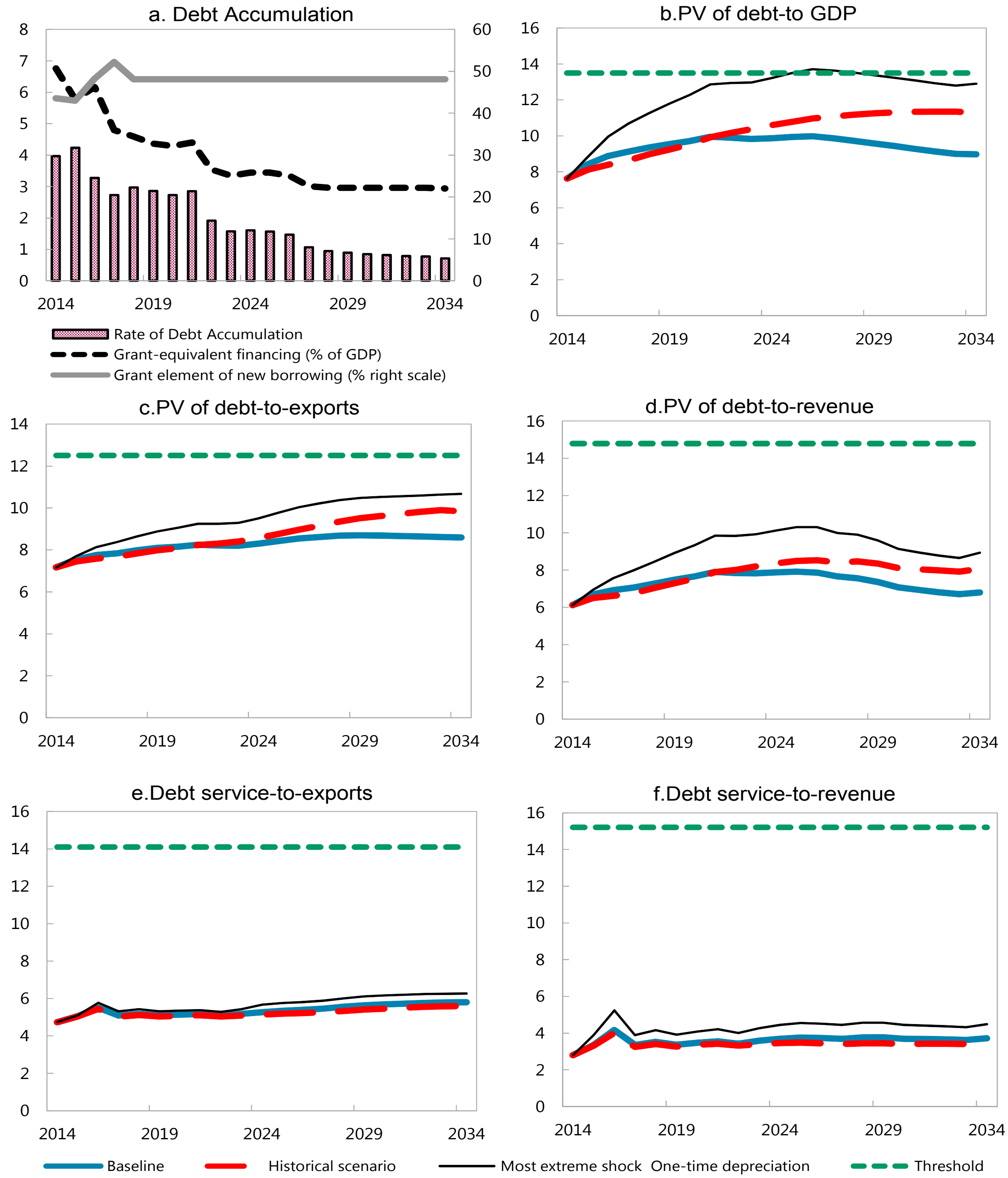
Figure 3. Liberia: Indicators of Public and Publicly Guaranteed External Debt Under Sustained Borrowing Scenarios, 2014–34[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Terms of borrowing shock; in c. to a Terms of borrowing shock; in d. to a Terms of borrowing shock; in e. to an Exports shock and in figure f. to a One-time depreciation shock. In the alternative scenarios of external DSA, historical average and standard deviation of major variables are calculated by using the data from 2008 due to the structual change of the economy.

Figure 4. Liberia: Probability of Debt Distress of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2014–34[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Terms of borrowing shock; in c. to a Terms of borrowing shock; in d. to a Terms of borrowing shock; in e. to an Exports shock and in figure f. to a One-time depreciation shock

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes Third Review Under Extended Credit Facility Arrangement for Liberia and Approves US$11.4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Liberia's economic performance under the three-year arrangement under the Extended Credit Facility (ECF) for Liberia. The completion of the review enables the disbursement of an amount equivalent to SDR 7.382 million (about US$11.4 million), bringing total disbursements under the arrangement to SDR 29.528 million (about US$45.7 million). In completing the review, the Board also granted a waiver for the nonobservance of the floor on government revenue, and modified the targets for end-June net foreign reserves and public sector gross external borrowing.

The ECF arrangement for Liberia for SDR 51.68 million (about US$79.9 million) was approved by the IMF's Executive Board on November 19, 2012 (see Press Release No. 12/449).

Following the Executive Board's discussion, Mr. David Lipton, IMF First Deputy Managing Director and Chair issued the following statement:

"Liberia's growth performance remains strong. Real GDP growth is estimated at 8.7 percent in 2013, reflecting increased iron-ore production. Output is projected to continue to expand at a healthy pace over the medium term as new mining projects come on stream and non-mining activities pick up, supported by the implementation of large public infrastructure projects.

"The authorities continue to make progress in implementing their economic program, but further efforts are critically needed in some areas. The completion of the payroll cleanup will help save about 0.5 percent of GDP annually and the pilot phase of the Treasury Single Account has been launched. At the same time, substantial revenue shortfalls and recently-uncovered spending commitments for road projects outside the budget process underscore significant remaining capacity and institutional constraints.

“The authorities are taking appropriate actions to strengthen revenue collection and avoid the recurrence of extra-budgetary commitments. Additional measures to improve compliance by large taxpayers and state entities are being implemented, and the new Liberia Revenue Authority will focus on improving tax controls. The authorities have also requested external audits of the problematic road contracts, together with a broader review of procurement practices in other ministries. Additional structural measures, to be supported by Fund technical assistance, aim at strengthening expenditure controls and oversight of investment projects.

“Containing inflation in the dual currency regime will require more effective liquidity management. Enhanced coordination between fiscal and monetary authorities, together with further development of monetary policy instruments, would help better control the Liberian dollar money supply.

“The current debt accumulation is broadly in line with the temporary scaling up of public investment envisaged under the program, but borrowing plans need to carefully balance development needs and debt sustainability.”