IMF Country Report No. 19/381

LIBERIA

December 2019

REQUEST FOR A FOUR-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBERIA

In the context of the Request for a Four-Year Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 10, 2019, following discussions that ended on October 29, 2019, 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 November 26, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff[s] of the IMF and the World Bank.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Liberia.

The documents listed below 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 IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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December 11, 2019

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IMF Executive Board Approves US$ 213.6 Million ECF Arrangement for Liberia

On December 11, 2019, the Executive Board of the International Monetary Fund (IMF) approved a four-year arrangement under the Extended Credit Facility (ECF) for Liberia in an amount equivalent to SDR 155 million (60 percent of quota or about US$ 213.6 million) to help the country restore macroeconomic stability, provide a foundation for sustainable growth, and address weaknesses in governance.

After grappling with challenges for over a year, a consensus on the need for broad-based reform has emerged. The program aims to support the authorities' strong adjustment efforts, catalyze significant donor financing, and provide a framework within which to implement the authorities' ambitious reform agenda. The Executive Board's decision will enable an immediate disbursement of SDR 17 million (about US$ 23.4 million).

At the conclusion of the Executive Board's discussion, First Deputy Managing Director and Acting Chair, Mr. Mitsuhiro Furusawa, stated:

"Liberia's economic situation is challenging and fragile. Inflation and year-on-year exchange rate depreciation are high at 30 percent, and growth is subdued. The authorities are committed to carrying out the prudent macroeconomic policies and ambitious structural reforms necessary to restore macroeconomic stability and to put Liberia on a fiscally sustainable and inclusive growth path under the Fund's four-year Extended Credit Facility arrangement.

The recent upfront fiscal tightening is welcome. To preserve the gains and to maintain budget credibility, it is important that the recently instituted set of fiscal controls is fully implemented. Moreover, strengthening tax policy and administration over the program period is critical to ensure that the public sector can operate effectively.

The monetary tightening by the Central Bank of Liberia (CBL) enacted in November 2019 was necessary to reduce inflation. A key prerequisite for success would be full adherence to the program prohibition on government borrowing from the CBL.

Liberia's external vulnerabilities are significant, and foreign reserve stocks have fallen to low levels. In addition to eliminating the financing of the budget, building resilience will require containing the CBL's operational expenses, and limiting foreign exchange intervention.

Given that a small worsening of the terms of debt, or failure to sufficiently adjust the fiscal stance could edge Liberia closer to high risk of external debt distress, the authorities are committed to adhere to the ceiling on non-concessional borrowing and to refrain from non-transparent collateralized agreements under the Fund-supported program.

Ensuring financial sector stability is an important element of the program. Improving data reporting, obtaining an overview of the health of the banking system, and taking decisive measures as needed will help identify and address financial sector vulnerabilities. At the same time, enhancing the legal framework is important to ensure that the CBL has the required instruments should remediation be necessary.

Structural reforms aimed at improving governance will help reduce vulnerabilities to corruption and promote private-sector led growth.''

Annex

Recent Economic Developments

Over the past period, a decline in external assistance combined with weak domestic revenue generation, limited expenditure adjustments—especially on wages—and an accommodative monetary policy stance led to numerous macroeconomic challenges. These including an unsustainable fiscal stance, the emergence of arrears, excessive central bank financing, depletion of fiscal and external buffers, and pressure on inflation and the exchange rate.

President George Weah launched the Pro-Poor Agenda for Prosperity and Development (PAPD) in October 2018, but its objectives of building roads and improving social services have largely been delayed due to lack of funding. The IMF-supported program would help stabilize the economy – which is a necessary condition for a sustainable transition out of fragility – and catalyze financing for their development plan (the PAPD), ultimately putting Liberia on a sustainable medium-term growth trajectory.

Program Summary

The program will focus on:

- **Restoring macroeconomic stability**, which is a key precondition for a sustainable transition out of fragility, while protecting the poorest segment of the population from the burden of adjustment;

- **Putting Liberia on a fiscally sustainable growth path**, which is the main objective of the PAPD; and

- **Addressing weaknesses in governance and institutions of the public sector**, which will help safeguard scarce resources and facilitate achievement of the first two objectives.

The program also aims to catalyze substantial external support, which is critical to ensure that the programmed adjustment can be contained at levels that are politically and economically feasible while, at the same time, ensuring public and external debt sustainability.

LIBERIA

November 26, 2019

REQUEST FOR A FOUR-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context. Resource constraints, macroeconomic imbalances, and longstanding fragility continue to challenge the authorities' efforts to improve living standards. An initial rush to deliver election promises has, at times, led to shortcomings in their execution. After grappling with these challenges for over a year, a consensus on the need for broad-based reform has emerged, leading to a request for a Fund-supported program.

Request. The authorities are requesting Fund support in the form of a four-year arrangement under the Extended Credit Facility of SDR155 million (60 percent of quota) to guide policies and reforms aimed at restoring macroeconomic stability, providing a foundation for sustainable growth, and addressing weaknesses in governance.

Main policy commitments. The authorities have demonstrated commitment by passing a credible budget for FY2020 that consolidates public finances, including by rightsizing the compensation of employees and implementing long-overdue comprehensive civil service reform, while protecting funds for critical social spending. They have also put in place measures and systems that have greatly improved fiscal monitoring and control. Beyond FY2020, they intend to mobilize domestic revenue to finance the development agenda. To reduce inflation this year, they have significantly tightened the monetary policy stance. The authorities are also addressing their weak external position through firm commitments to reduce the operational deficit of the Central Bank of Liberia (CBL)—a major source of reserve loss; enhance the CBL's ability to monitor flows of foreign exchange; and improve the structure and management of FX auctions to ensure efficient, market-based allocation of scarce foreign exchange. On governance, the authorities have prioritized central bank reforms, including through major changes to the legal framework that enhance independence.

Risks to the program. Risks to the program are high despite significant mitigation measures. However, prior actions, quantitative performance criteria, and indicative targets have been designed to minimize risks to the program, which range from expenditure overruns and domestic revenue shortfalls to monetization of fiscal deficits.

Staff's view. Staff supports the authorities' request. The ECF disbursement would support the authorities' strong adjustment efforts, help catalyze significant donor financing in the form of grants, and provide a framework within which to implement the authorities' ambitious reform agenda.

Approved By
Dominique Desruelle (AFR) and Kevin Fletcher (SPR)

Discussions were held in Monrovia (June 11 – 24 and September 1-16, 2019). The staff team comprised Ms. Saito (head), Mr. Jenya, and Ms. Tejada (all AFR); Mr. Anderson (SPR); and Ms. Lattie (MCM). Mr. Oestreicher (Resident Representative) and Mr. Deline (Economist, Resident Representative Office) assisted the mission. Mr. Jappah (OED) attended the policy meetings. The mission met with President Weah; Finance Minister Tweah; Central Bank Governor Patray; Commerce Minister Tarpeh; representatives of the Legislature, including President Pro Tempore Chie and Speaker of the House of Representatives Chambers; other senior government and central bank officials; and development partners. Ms. Kaze provided research support and Mr. Magno provided assistance for the preparation of this report.

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CONTEXT

1. **Resource constraints and macroeconomic imbalances continue to challenge the authorities' efforts to improve the living standards of the population**. The administration of President George Weah launched the Pro-Poor Agenda for Prosperity and Development (PAPD) in October 2018, but its objectives of building roads and improving social services have largely been delayed due to lack of funding. Moreover, a decline in external assistance combined with weak domestic revenue generation, limited expenditure adjustments especially on wages, and an accommodative monetary policy stance led to numerous macroeconomic challenges, including an unsustainable fiscal stance, the emergence of arrears and excessive central bank financing, depletion of fiscal and external buffers, and pressure on inflation and the exchange rate.

2. **Though well-intended, an initial rush to deliver election promises has come at the expense of good governance**. In the past year, several governance issues surfaced: questionable loans involving CBL guarantees were ratified, procurement laws were not systematically followed, and funds earmarked for projects were used to pay wages. In addition, the processes surrounding the printing of banknotes and cash intervention in the foreign exchange market highlighted serious weaknesses in internal control at the CBL.

3. **After grappling with these challenges for a year and half, a broad-based consensus for reform has emerged, culminating in a request for a Fund-supported program**. The IMF's engagement with Liberia in the past two years has combined surveillance with intense use of technical assistance (TA). Although the authorities initially hesitated to adopt a reform program along the lines advocated by the 2019 Article IV consultation, they have since concluded that only such a program would allow them to stabilize the economy – which is a necessary condition for a sustainable transition out of fragility – and catalyze financing for their development plan (the PAPD) which would ultimately put Liberia on a sustainable medium-term growth trajectory. They are very cognizant that easing the cost of adjustment will require substantial support from the international community.

4. **For the Fund to helpfully re-engage with Liberia in a program context, parsimony and policy focus are critical**. In line with Board guidance, staff is seeking to apply lessons from past program experiences: the recent ex-post assessment[1] highlighted difficulties in keeping past programs parsimonious and on track after major corruption issues were uncovered. Given persistent concerns about pervasive governance issues, risks of program interruptions are significant and their attendant negative macroeconomic consequences (e.g., delays in budget support and resulting financing gaps, arrears, and central bank credit) may be significant. Careful attention to governance reform and prioritization of specific measures over the program period is therefore required. For this reason, addressing fiscal and central bank governance issues by introducing a robust cash management and control system at the Ministry of Finance and Development Planning (MFDP) and at the CBL were set as prior actions (PAs) for program approval. Technical assistance (TA) and

[1] IMF Country Report No. 18/172, Appendix I.

capacity building during the preparatory stage were tailored to support these areas. These are expected to remain a focus of capacity building for the duration of the program (¶42 and ¶43).

5. Staff views the authorities' commitment to reforms, as indicated in the Letter of Intent and the Memorandum of Economic and Financial Policies (Appendix I), and their demonstration over the last six months of the capacity to implement those reforms, as warranting access to Fund resources at the level requested.

RECENT ECONOMIC DEVELOPMENTS

6. Liberia's economic situation is challenging (Figures 1-4). Both inflation and exchange rate depreciation remain high at 30 percent as of end-September 2019, mostly due to sustained growth in monetary aggregates. A slowdown in real GDP growth in 2019 is largely driven by falling demand, as indicated by the evolution of taxes and bank credit.

7. Macroeconomic imbalances have increased from the levels reported in the 2019 Article IV consultation staff report.

- Domestic arrears at end-June for FY2019[2] totaled US$90 million (2.8 percent of GDP), as opposed to the US$30 million estimated at the time of Article IV consultation. About half of these were wage arrears, which were cleared by end-September by drawing on the CBL overdraft facility. Reconciled end-FY2019 arrears are now estimated at US$52 million (1.6 percent of GDP).

- The fiscal situation in the first quarter of FY2020 was severely constrained as the revenue outturn was much lower than anticipated, partly due to a delay in the passage of the FY2020 budget.

- The CBL's high operational expenses (excluding the cost of monetary operations), which are a source of monetary expansion and a drain on gross reserves, continued to increase to US$39 million in 2019 (original budget), compared to US$23 million in 2018 (outturn). The rise is largely due to increased employment levels at the CBL.

8. Vulnerability to shocks has risen significantly, as fiscal buffers are depleted and external buffers much reduced.

- US$90 million (3 percent of GDP) of government deposits were spent in the last six months of 2018, leaving no fiscal buffers.

[2]Fiscal year is between July 1 and June 30.

- Gross official foreign reserves fell from 2.4 months of import cover at end-2018[3] to 2.2 months in the first half of 2019 due to financing of the CBL's operational budget, FX intervention, and lending to the government.

PROGRAM OBJECTIVES, OUTLOOK, AND RISKS

9. Against this background, the program will focus on:

- ***Restoring macroeconomic stability***, which is key to a sustainable transition out of fragility, while protecting the poorest segment of the population from the burden of adjustment;
- ***Putting Liberia on a fiscally sustainable growth path***, which is the main objective of the PAPD; and
- ***Addressing weaknesses in governance and institutions of the public sector***, which will help safeguard scarce resources and facilitate achievement of the first two objectives.

10. The program also aims to catalyze substantial external support in the form of grants. The budget support grants anticipated for FY2020 total US$61 million, which is 13 percent of domestic revenue. Catalyzing donor financing in the form of grants is critical to ensure that the programmed adjustment is not so large as to be politically and economically unsustainable and, at the same time, to foster public and external debt sustainability.

11. The macroeconomic situation is expected to improve under the program. Real GDP growth is projected to recover to above 5 percent in the medium term, while inflation is projected to go down to 15 percent within a year and reach single digits during the program period. The speed of recovery in growth beyond 2020 depends on how fast the authorities will create fiscal space for social and development spending, which is severely constrained by limited budget resources and the size of the compensation of employees.

12. Risks to the program are high despite significant mitigation measures. Developments in the last fiscal year illustrate potential risks to the program, including the possibility of expenditure overruns, weaker than anticipated domestic revenue mobilization (Box 1), domestic payment arrears, continued recourse to CBL overdrafts, high CBL's operational losses, and heightened civil unrest as highlighted by recent demonstrations. At the same time, the authorities have shown significant commitment by passing a credible budget for FY2020 that is in line with the resource envelope projected at end-FY2019, rationalizing the compensation of employees, implementing long overdue comprehensive civil service reform to promote greater transparency and equity, and

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[3]Gross reserves for end-2018 were revised down from US$358 million (Article IV) to US$313 million at the end-year external audit. The vault cash was revised from US$97 million to US$52 million for (i) removal of non-cash instrument of US$25 million for the mop-up exercise that was included as cash (the audit reclassified it as a receivable); (ii) double counting of US$20 million funds when uploading funds from one system to another.

significantly tightening the monetary policy stance to address the high rate of inflation. Moreover, substantial progress was made in cash management and control, both at the MFDP and the CBL.

Box 1. Risks to Domestic Revenue, FY2020

Downside risks to the domestic revenue projection are substantial. Domestic revenue in FY2020Q1 (July–September 2019) fell short of projection by about $26 million, partly due to temporary factors (e.g., deferred PIT collections because of public wage arrears) and some that are unlikely to be recovered (such as the loss from late implementation of new revenue measures because the budget was passed in October rather than June 2019). However, the shortfall is across most major categories – but more pronounced for PIT (of both public and private sector) and international trade taxes – which could also represent some combination of a larger-than-anticipated slowdown in economic activity and the impact of challenges identified in tax administration (¶15). As of end-October, the LRA had collected $123.7 million. If the same degree of underperformance were to continue for the rest of the fiscal year, the revenue shortfall compared to the approved budget could be as high as $52 million (Box Table 1). If shortfalls in this range appear likely, a recast FY2020 budget would be needed. Since further large budget cuts will be difficult, it will have to be supported with new high-quality revenue measures.

The government is determined to avoid arrears and central bank borrowing, but the risk of slippages is sizeable. The allotment in Q1 (US$118 million), though in line with the budget, is significantly higher than the revenue outturn (US$84 million), and thus, wage and other payments in Q1 have been held back. The allotment path for Q2 shows a sharp contraction both in wages (from US$74 million in Q1 to US$50 million in Q2) and in non-compensation primary expenditure (from $25 million in Q1 to $13 million in Q2). Risks to the fiscal remain high, as the government is under significant pressure to become current on wages before the end of the year as strikes and demonstrations continue.

Box Table 1. Liberia: FY2020 Fiscal Budget Proposed Allotment Path
(In Millions of U.S. dollars)

	Q1	Q2	Q3	Q4	FY2020	Budget
Revenue	84	106	149	136	474	526
Domestic revenue	84	100	109	121	413	465
Budget support	0	6	40	15	61	61
Expenditure (allotment)	118	79	141	136	474	526
Compensation of employees	74	50	99	74	297	297
Other primary expenditure	25	13	34	45	116	168
Debt service	19	17	8	17	61	61
Primary expenditure (commitment)	55	107	133	119	413	526
Financing gap (cumulative)	-34	-7	0	0	0	0
Primary balance excl grants (cumulative	29	22	-2	0	0	0

Sources: Liberian authorities; and IMF staff calculations.

POLICIES SUPPORTING THE PROGRAM

A. Creating a Sustainable Fiscal Position

Background

13. **Liberia's fiscal position has weakened significantly over the past few years**. External grants to Liberia fell rapidly from a peak of 19 percent of GDP in FY2016 to 13.8 percent in FY2019 as Ebola-related grants were frontloaded and the largely grant-financed rehabilitation of Mount Coffee hydropower station was completed. Meanwhile, domestic revenue generation remained weak. The absence of a corresponding orderly downward adjustment to expenditure, and of robust cash management and controls against spending pressure, resulted in the build-up of significant levels of both domestic arrears and government debt to the central bank (¶7).

14. Up until the end of FY2019, fiscal spending became increasingly skewed towards labor compensation, which crowded out development spending and constrained growth potential. Disorderly spending cuts (especially in the past few years) safeguarded the compensation of employees over other spending and resulted in a disproportionate increase in the share of public resources devoted to salaries.[4] The size of the FY2019 compensation of employees at 10 percent of GDP was 4 percentage points of GDP above the regional average, which amounted to about US$120 million per year. Moreover, the practice of using general allowances (discretionary bonus payments) for more than half of compensation payments resulted in large wage disparities across similar tasks, levels of education, and work experience.

15. The Liberian Revenue Authority (LRA) is striving to increase domestic revenue but is facing headwinds (Annex I). The LRA has started implementation of its Domestic Revenue Mobilization Strategy, but the potential yield is still unknown. Moreover, recent TA to Liberia on revenue administration shows that underdeveloped processes and a complex Information Technology (IT) environment have compromised the quality of tax data.

Key Elements of the Program

16. Fiscal policy under the ECF arrangement will be anchored on reaching a debt-stabilizing primary balance by the end of the program period.

- The medium-term fiscal objective is to bring the primary deficit, including off-budget transactions, of 5.2 percent of GDP estimate for FY2019 (Table 3b) down to a debt-stabilizing level of 2.5 percent of GDP over the medium term (Debt Sustainability Analysis (DSA) Table 2).
- The size of adjustment was reduced relative to that envisaged in the reform scenario of the 2019 Article IV consultation to, in the context of fragility, reduce the burden on the most vulnerable groups (Box 2).
- For program monitoring purposes, a quantitative performance criteria (QPC) is set on the *primary fiscal balance excluding grants and off-budget transactions* (Table 3d) as this is the variable most directly under the authorities' control.

[4]IMF Country Report No. 19/169, Annex VI.

Box 2. Feasible Size of Adjustment for Countries in Fragile Situations, 2019–24

The size of fiscal adjustment is modified compared to the reform scenario in the 2019 Article IV consultation, though remains in line with that being undertaken by regional peers. Given that macroeconomic imbalances are currently larger than previously anticipated, maintaining the fiscal targets suggested in the reform scenario of the 2019 Article IV Consultation report would necessitate a significantly larger adjustment effort. However, staff assesses that with fiscal buffers exhausted, fiscal space severely constrained, and significant social and development spending needs unmet, an adjustment of that size is not feasible.

The revised size of adjustments is financed by reducing the size of the government's debt service to the CBL and using the freed resources for primary expenditure. The government's debt service to the CBL in the reform scenario—including the Extended Credit Facility (ECF) and Rapid Credit Facility (RCF) budget support disbursed during the Ebola epidemic and on-lent to Government—was on average about 2 percent of GDP (or 13 percent of revenue) and allocated mostly to amortization. The proposed adjustment path allows for smaller net repayments to the CBL by allowing the roll-over of loans that originated from CBL's on-lending of ECF/RCF budget support to the government (US$107 million).

To avoid an adverse impact on the CBL's financial position, the CBL has been assured of sufficient income to cover the costs of its operations and its conduct of monetary policy. To this end, the outstanding stock of government debt on the CBL's balance sheet (US$497 million as estimated at end-October 2019) will be restructured and consolidated into a long-term loan (Attachment IV of the Letter of Intent). Interest earned by the CBL on this loan will be set at 4 percent, a considerable increase from what was an effective interest rate of only 1 percent previously. Policy solvency (ability to operate without recourse to the government) for the CBL will be ensured by this interest income and the CBL's commitment to reduce its operational expenses (¶26). Importantly, consistency with fiscal sustainability has been assured by delaying principal payments on the consolidated loan to 2029.

The proposed revision to the adjustment path will keep the thrust of the assessment of the previous DSA, though debt stabilizes at a higher level in the medium term. The level of domestic debt for 2019 has been revised up to reflect the government's recognition of existing debt, the increased use of the CBL overdraft facility, and the inclusion of new arrears (¶22). Thus, the debt-to-GDP ratio at the end of the program period has increased, but the present value of the debt stock is now lower because of the extension of the grace period.

17. An important prior action was the enactment of a realistic FY2020 budget (MEFP ¶16). The FY2020 budget achieved several important objectives while safeguarding social and development spending:

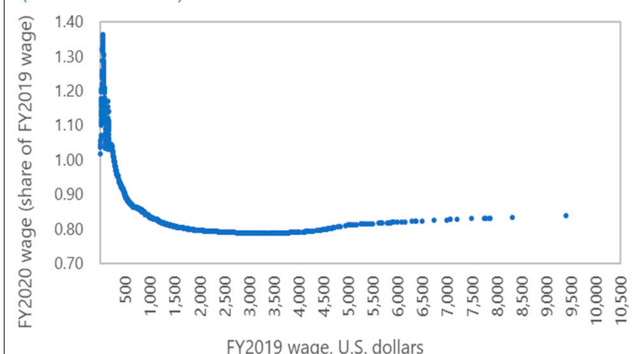
- First, it implemented a long-overdue **wage rationalization** (MEFP ¶17) under which (i) the total compensation of employees was reduced by 10 percent, equivalent to a cut of around 1 percentage point of GDP, (ii) the previous, considerable discretion in wage payments was eliminated through the consolidation of the base wage and allowances, (iii) improvement in income distribution was achieved by raising wages at the bottom end of the distribution (Box 3), and (iv) wage payments were centralized through the Civil Service Agency (CSA).

Box 3. Wage Rationalization, FY2020

Program preparation began with taking the first step of the long-overdue civil service reforms and strategies that are already envisaged in the PAPD. The number of public sector employees is not large relative to country peers. In fact, the number of clinical health workers and qualified teachers is far below where it should be. But the level of the compensation of employees at end-FY2019, at 10 percent of GDP, was not sustainable. As a first step, the authorities have reclassified the entire civil service into appropriate wage categories and grades, assigned them a wage category and level, and registered them at the CSA. They now have 75,000 public employees graded and close to 30 percent of them are registered with verified national identification repository number. Discretionary allowances, formerly about 60 percent of total compensation, have now been eliminated and merged into the civil service wage, and the authorities are fully committed to ensuring all compensation going forward will be paid according to the employee's formal position and pay grade within a transparent civil service wage structure.

The civil service wage scale was adjusted down twice in July and September to bring down the compensation of employees to US$297 million to deliver a credible FY2020 budget. In the July wage adjustment, those getting paid above the category- and grade-specific median wage were brought down to the relevant median wage, while those below the minimum wage of US$100 per month were brought up to that level. In the September wage adjustment, those getting paid above $500 per month shared the burden of further cuts to deliver the compensation of employees of $297 million. The National Legislature as well as the Judiciary joined the Executive and civil service in this effort. As a result, the distribution of wages became more even for the entire public sector and in each branch of the government.

Liberia: FY2020 Wage Adjustment
(Lowess Smoother)



Sources: Liberian authorities; and IMF staff calculations.

- Second, it introduced a number of **revenue measures** (MEFP ¶18) that sum to about US$26.8 million (0.9 percent of GDP, Text Table 1), though total domestic revenue is projected to remain at about the same nominal value as in FY2019 because the new measures largely replace one-off measures from last year. Sizeable tax measures (e.g., a switch from ad valorem to specific tax rates on fuel and improving the progressivity of personal income tax) were discussed but were judged to be too difficult to implement in FY2020, as they would worsen civil servants' purchasing power at a time when most were already facing nominal wage reductions.

- Third, it has laid the foundation to allocate more resources to human capital and infrastructure development over the medium term. The shift of spending away from the compensation of employees creates the potential to free up fiscal space over the next few years, as nominal GDP growth and further rationalization of the salary structure and civil service staffing levels gradually reduce the compensation of employees as a share of GDP.

- Overall, the FY2020 budget aims to improve the **primary fiscal balance excluding grants and off-budget transactions** by 0.9 percentage point of GDP.

Text Table 1. Liberia: Revenue Measures, FY2020

(Million U.S. dollars)

Revenue Measure	Proposed Millions of US$	Proposed Percent of GDP	Policy Proposal
PIT: calculate taxable income of public servants from consolidating base salary and general allowance	0.00	0.00	Reduction in tax base from the wage cuts will be offset by the increase in under-declared taxable income from consolidating base salary and general allowance.
ECOWAS CET migration plan to Year 2	6.00	0.19	Follow ECOWAS CET migration plan.
Implementation of the new excise law	0.60	0.02	Implementation of the new excise law.
State Owned Enterprises	11.74	0.37	
Liberia Telecommunications Corporation (LIBTELCO)	1.89	0.06	Modify revenue sharing ratio from 61/39 to 69/31.
Liberia Maritime Authority (LMA)	3.35	0.11	Enforce collection; LMA is supposed to pay minimum of about US$10 million annually and US$12 million additionally.
Others	6.50	0.21	Modify the revenue sharing ratio from average of 58/42 percent to 70/30 percent.
National Port Authority (NPA)	5.00	0.16	
Liberia Airport Authority (LAA)	0.50	0.02	
National Fisheries and Aquaculture Authority (NaFA/	1.00	0.03	
Royalty - Mittal	3.00	0.10	Modify royalty formula to reflect higher quality of iron ore.
One-off measures	5.50	0.17	
Audit of the telecom	1.00	0.03	Technical audit of past tax payments. Funding has been secured and the audit is expected to take place in FY2020Q3.
Liberia Petroleum Refining Company	2.00	0.06	Budget support
Collection of Road Fund Arrears	2.40	0.08	Continue to collect arrears from FY2018.
Administrative fees from MAC	0.10	0.00	
TOTAL	**26.8**	**0.9**	

Sources: Liberian authorities and IMF staff estimates and projections.

18. **An equally important prior action for the program was to significantly improve fiscal cash management and control to prevent the emergence of domestic arrears**. To this end, formal procedures were established to ensure all payment vouchers issued can be paid in full and on time. To operationalize this, the MFDP introduced a strict segregation of duties between the Budget Department, which is responsible for making allotments, and the Fiscal Affairs Department, which is in charge of issuing financial budgets (cash release schedules) based on up-to-date liquidity and revenue information. To support this process, regular meetings of the Liquidity Management Committee and the Treasury Management Committees are now taking place (PA, MEFP ¶37, Annex II). This PA is critical to prevent recent practices of allowing allotment and commitment expenditure to exceed available cash, resulting on central bank borrowing and accumulation of arrears.

19. **To support the allotment and commitment decisions, the quality and frequency of fiscal reporting was significantly improved**. The authorities have been submitting updated budget execution reports and cash plans to staff on a weekly basis since June 2019 (PA). Through

these reports, the authorities and staff have been able to closely monitor the execution of the FY2020 budget.

20. The government is working to regain momentum on domestic revenue mobilization (DRM). To this end, the government is committed to improving the efficiency of tax collection and to introducing high-quality tax policy measures going forward (MEFP ¶45). The top three priorities to rebuild revenue administration processes and systems are: (i) to establish for each taxpayer only one tax account per tax type and ensure that taxpayers file one return per tax type; (ii) to provide and use an Information Technology Tax System (ITAS) that is fit for purpose to support tax administration processes; and (iii) to monitor and publish institutional performance through the established key performance indicators on a quarterly basis. On tax policies, the authorities are considering additional high-quality tax policy measures such as the expansion of the tax base of the Personal Income Tax (PIT), increasing the Goods and Services Tax (GST) rate and tax base, following the ECOWAS Common External Tariff (CET) migration plan to transition to Year 3 and subsequently Year 4, finalizing review of the investment incentive agreements and exemptions, and several excise tax measures proposed by IMF TA (Annex I).

21. To reduce fiscal risks from State Owned Enterprises (SOEs), the authorities are committed to improving their ability to monitor and control large SOEs (MEFP ¶41). The authorities have agreed with the eight largest SOEs that they provide quarterly reports on their financial performance to the SOE Reporting and Coordination Unit (SOERCU) of the MFDP. As an immediate priority, the Debt Management Unit (DMU) of the MFDP with assistance from SOERCU will re-establish a database of government on-lending and guarantees to SOEs to update existing information.

22. To reduce fiscal risks from domestic arrears incurred in FY2019, the authorities are taking the following steps (Appendix II). First, to prevent the emergence of new arrears, the authorities have deployed strict cash control measures (¶18) and have set a ceiling on domestic arrears under the program (IT). Second, in consultation with staff, the authorities are in the process of establishing the outstanding stock of arrears as of end-FY2019 based on granular cash and commitment data by spending agency and detailed economic classification. Third, they have committed to having these arrears verified by the General Audit Commission (GAC). Fourth, in discussions with staff, the authorities will decide modalities for clearing the arrears, which could include budgetary provisions starting in FY2021 and securitization where necessary.

23. The program preserves medium-term fiscal and debt sustainability. The DSA suggests that Liberia remains at moderate risk of external debt distress and high risk of overall public debt distress, with limited space to accommodate shocks. As was the case for the analysis during the 2019 Article IV consultation, the DSA incorporates the government's domestic debt to the central bank and SOEs' debt guaranteed by the government. In addition, the DSA now incorporates US$45 million of domestic arrears repayment over the medium term, which assumes that the government can manage to reject or negotiate haircuts on some of the outstanding arrears stock. The analysis indicates that in the baseline case, Liberia would remain at moderate risk of external debt distress. However, it would edge closer to a high risk of debt distress with only a small change in the terms of both domestic and external debt or a failure to adjust primary expenditure to the available revenue envelope over the medium term. The authorities are mindful of this sensitivity and are committed to adhere to the ceiling on non-concessional borrowing and to limiting contraction of loans on nonconcessional terms, refraining from nontransparent collateralized agreements, and ensuring that new debt is contracted transparently (MEFP ¶34).

B. Lowering Inflation and Improving the CBL's Operational Capacity

Background

24. Inflation began to accelerate significantly in 2018 and remains high. Following an initial exchange rate depreciation-induced rise in prices, the inflation pressure was maintained by a rapid increase in the Liberian dollar money supply, as the CBL continued to extend credit to the government (¶7) and additional money creation resulted from the financing of the CBL's large deficit. The latter was a result of large operating losses, including from an inordinately high increase in staffing levels in 2019 (¶26), and the CBL's lack of effective monetary policy instruments. The resulting monetary expansion proved difficult to offset as during this period the CBL lacked effective monetary instruments.

25. Over the same period, the CBL's safeguard framework has weakened significantly, with the most recent safeguards assessment continuing to highlight serious governance and control issues at the CBL.

Key Elements of the Program

26. CBL Management and the Board acted decisively in November 2019 to significantly tighten the monetary policy stance and to address the underlying structural and safeguards issues.

- New interest-rate based monetary policy instruments, broadly consistent with Fund technical advice[5], have now been implemented. The rate on the overnight Standing Deposit Facility (SDF), which is accessible to commercial banks in the interbank market, is now filling the role of a policy rate. Given the current level of inflation, the policy rate (SDF rate) was initially set at 30 percent; although staff recognized that further interest rate adjustments may be needed to mitigate future inflation risks. The Board also re-aligned the interest rate on the Standing Credit Facility (SCF), which is a collateralized overnight credit facility, at 5 percentage points above the SDF rate. The CBL will auction Central Bank Bills (CBBs) to commercial banks and the general public at graduating rates based on tenors (MEFP ¶28). The CBL recognizes that there are confidence issues to overcome and that the transmission

[5]Staff will continue to encourage further refinements to the monetary framework consistent with TA advice, including the streamlining of the terms and conditions for accessing standing facilities.

of the policy rate to retail deposit rates will be a crucial for success. The CBL has begun to sensitize banks to the new monetary policy framework.

- **For the adoption of the new monetary policy instruments, important groundwork has been carried out to ensure the CBL has the financial wherewithal to effectively conduct policy**. An agreement due to be signed between the MFDP and the CBL aims at providing enough interest income to the CBL to carry out its mandate (Box 2), while remaining mindful of the government's tight fiscal position. The agreement will quantify, regularize, and securitize all outstanding USD and LD credit to the government. Reverting to central bank financing and arrears under the new agreement will risk the attainment of the ceiling set on gross credit to government (QPC).

- **To safeguard reserve levels, the Board approved significant cuts to the CBL's 2020 budget in line with IMF technical advice**. The revised 2020 budget approved by the CBL board on October 24, 2019, mandates a US$14.6 million reduction in expenditure (excluding the cost of monetary operations) from the previously budgeted expenditure level of US$38.8 million. This reduction will be achieved through a combination of wage reduction of US$5.3 million and expenditure rationalization by restricting travel, limiting Board expenses, and ensuring competitive bids for procurement of information and communications technology (ICT) equipment and other services. Strengthened budget controls will improve execution and aid in meeting program targets. Staff considers that this revision, together with additional interest income from the government, to be sufficient to stabilize the level of foreign reserves and meet the program reserve targets. To ensure this outcome, a ceiling has been set on the CBL's operational and capital expenses excluding the cost of monetary operations (QPC).

27. Measures to address governance and control issues at the CBL were identified by IMF Safeguards Assessment reports and implemented as prior actions for program approval. These included:

- Permanent Board members of the CBL were appointed. After more than one year of operating with three untenured non-executive board members, the Legislature confirmed the newly appointed CBL board members on July 18, 2019.

- An internationally reputable firm is to be appointed to co-source the CBL's key internal audit activity (PA).

- The CBL has updated its Action Plan of reform to include ways in which its currency operations and controls will be improved, as informed by the independent forensic audit carried out by Kroll Associates and by an IMF TA on currency operations and controls that took place during November 4–8, 2019.

- The continuation of the semi-annual external audits of foreign reserves and the submission of foreign exchange data on a regular basis introduced at the end of the previous program.

C. Reducing External Vulnerabilities and Improving Competitiveness

Background

28. External vulnerabilities remain elevated and staff assess the external sector position to be substantially weaker than warranted by fundamentals and desirable policies (Annex IV). The external sector assessment is broadly unchanged from the previous external sector assessment: the current account deficit remains large and is weaker than the norm, while gross international reserves have declined further and are below reserve adequacy levels. Improving competitiveness and the business environment as well as fiscal adjustment and increased exchange rate flexibility are essential to addressing Liberia's external sector imbalances.

29. The CBL had been responding to the decline in available foreign exchange through administrative measures. CBL regulations continued to mandate that 25 percent of the FX from remittance inflows be surrendered to it in exchange for Liberian dollars. The original intention was that these amounts were to be freely auctioned to importers. However, for January to August 2019 auctions were suspended, and instead, the CBL allocated a fraction of the 25 percent of remittance flows back to the banks in the same proportion as they were received. Banks were then obligated to sell this foreign exchange to importers at the CBL's daily exchange rate plus a margin of LD 1 per U.S. dollar. According to some market participants, foreign exchange sales may have been to a degree targeted, with suggestions that this mainly went to importers of fuel and food.[6]

30. To address shortages of foreign exchange, the authorities were considering two capital flow management (CFM) measures. The measures, approved by the Cabinet but not yet implemented, were the introduction of an export repatriation requirement and an increase in the rate of the remittance surrender requirement from 25 percent to 50 percent. The latter measure was conceived as a way of diverting foreign exchange away from the foreign exchange bureaus and towards the CBL's auction window.

Key Elements of the Program

31. To rebuild external buffers, the program will eliminate two main sources of foreign reserve loss. The passage of a credible fiscal budget (¶17) and the introduction of stronger fiscal cash management and controls (¶18) will allow the authorities to eschew the use of central bank credit to fund spending. In addition, the CBL's operational losses, which in the past resulted in a reduction of gross reserves, will be significantly curtailed under the program (¶26).

32. The CBL has developed significantly improved capacity to monitor its foreign exchange inflows and outflows (PA). The CBL is continuing to contract external auditors to produce semi-annual special audits of foreign exchange (one of the two safeguard measures introduced at the final review of the previous program). The last one will be submitted by end-November 2019. In addition, since July 2019, the CBL has been submitting to the Fund daily

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[6]Staff highlighted to the authorities that rationing and prioritization may have given rise to jurisdictional issues.

foreign exchange data on a weekly basis. The data quality has improved relative to past submissions, with greater clarity of classifications and data completeness, and staff considers it to be adequate for the purposes of program monitoring and safeguarding of Fund resources.

33. The CBL commits to resuming non-discriminatory foreign exchange auctions in a form fully consistent with Liberia's obligations under Article VIII of the Fund's Articles of Agreement (MEFP ¶28).

- The CBL's FX auction guidelines are designed to achieve transparent price determination and incorporate the authorities' full acceptance of the need to avoid discriminatory provision of foreign exchange—such as could arise through rationing and prioritizing provision—and which could lead to multiple currency practices (MCPs) and exchange restrictions (ERs). The publication of the auction is also required under the new auction guidelines.

- The auction mechanism involves a single price auction system that: (i) guarantees access by all licensed intermediaries (authorized dealers) in good standing; (ii) does not impose constraints on the price that bidders can submit; (iii) determines allotment of FX to bidders at the auction solely on the price submitted. These principles were applied to the FX auction held on September 4, 2019, but the CBL has had to resort to bilateral sales of USD to banks to fulfill the demand for cash to circulate among the public for transactional purposes.[7]

- The authorities have accepted that CFM measures should not substitute for warranted macroeconomic adjustments. They concur with staff that the monetary and fiscal programs put in place under the program, and the improved auction mechanism that allows for a more flexible exchange rate, will have a positive impact on the availability of foreign exchange and reduce the incentives to sequester foreign currency outside of established markets. In light of this, while they remain wary of the possibility that the volume of foreign exchange transactions could shift further from the central bank to foreign exchange bureaus—which they view as nontransparent and more capable of accommodating illegitimate transactions—they have decided not to implement the cabinet-approved export repatriation requirement or the increase in surrender requirement (¶30) and will also refrain from introducing any additional CFMs. The authorities understand that the existing surrender requirement of 25 percent on remittances is appropriate only as a temporary measure to address extraordinary pressure on inflation and reserves. A Fund mission has been tentatively planned for the time of the first program review to further examine current exchange system practices, including any misalignments between CBL transactional rates and FX auction exchange rates which may perpetuate the incentives to divert foreign

[7] Staff anticipates that this phenomenon should be temporary, as the CBL indicates that its inventory of LD cash for circulation has been insufficient to meet demand for cash from the public. The authorities have since placed an order with the currency printers to address this shortfall in the near term.

exchange from the formal banking system. This mission will evaluate consistency of each practices with Article VIII obligations and will provide recommendations if needed.

34. **The authorities also recognize the importance of improving the business environment and competitiveness to address the large current account imbalance**. To this end, under the program, the authorities aim to achieve two key things that could be done relatively quickly: they will strictly adhere to the automatic fuel pricing mechanism to prevent the emergence of fuel shortages and will ensure that the fee charged for the container tracking system is reduced to levels prevailing in neighboring countries.

D. Ensuring Financial Sector Stability

Background

35. **The banking sector is suffering from high nonperforming loans and reduced liquidity**.

- Fund TA has highlighted the poor quality of banks' underwriting standards, financial sector statistics, and other reporting practices.
- Banks are also reported to be facing shortages of foreign exchange liquidity. The government issued bonds in May to clear its US$65 million of arrears to the banking sector.[8] The government is now in discussion with nonresident banks to help the domestic banks discount these bonds to improve their foreign exchange liquidity position and free up funding for additional bank credit to promote investment. While debt service paid by the government would likely be unchanged, the use of the bond discount facility (BDF) would change the holder of the government debt from resident to nonresident, and thereby reduce the limited amount of external nonconcessional borrowing space available under the program.

Key Elements of the Program

36. **As a first step, the CBL will enforce compliance with reporting requirements, including for open FX positions, and improve data quality and verification** (MEFP ¶31). Using these data, the CBL will prepare an overview of the health of the banking system by end-June 2020 by conducting a detailed assessment of credit quality, underwriting standards, and adequacy of provisioning levels across the banking system, utilizing Fund TA as a backstop, if necessary. If information remains insufficient after the conclusion of this detailed assessment, an Asset Quality Review (AQR) would be conducted as a follow-up. As a first step of the detailed assessment, the CBL has already completed on-site examinations of financial institutions that have overdrawn balances at the CBL as of end-September 2019. By end-December 2019, it will appoint a reputable external auditor to review the examinations' findings. As information from these assessments and reviews

[8]The bonds, which pay a coupon of 4 percent per annum and amortize in 7 equal payments for the next 7 years, are held by seven banks.

becomes available, the CBL will, in consultation with Fund staff, take any further measures needed to ensure financial stability, which may include actions related to asset classification, provisioning, the treatment of nonperforming loans, capitalization, and reorganizations. The authorities will postpone the use of the BDF until the CBL finishes its planned on-site examinations. Only banks that demonstrate that they will maintain solvency and liquidity levels within regulatory values after discounting will be allowed to proceed with the operation.

37. The CBL intends to propose amendments to the Financial Institutions Act (FIA) to empower itself with sufficient regulatory and supervisory powers to resolve troubled banks. The authorities aim to submit these amendments to the Legislature by end-September 2020 with Fund technical assistance and to issue regulations and operational guidelines on bank resolution by December 2020. Staff emphasized that improving the legal framework and maintaining adequate prudential standards—including the oversight of FX exposures in a highly dollarized banking system—are critical for reducing external vulnerabilities in the financial sector under the program.

38. Developing financial market infrastructure is important to make the interbank market more functional and efficient. In this regard, over the medium term, the program will seek automation of the collateral management system and ensure that an appropriate legal environment is in place to govern the interbank market, including for horizontal repurchase agreements.

E. Improving Governance and Fighting Corruption

Background

39. On the governance front, progress has been mixed.

- Over the past year, legislation has been enacted that addresses a variety of governance issues. These include the Land Rights Act (intended to enable formalization of ownership in an equitable manner that reduces the risk of conflict and maximizes access to land for investment); the Power Theft Act (to deter theft of electricity, thereby cutting losses and improving supply); the Whistleblower Protection Act (to encourage the reporting of corrupt practices); and the Freedom of Information Law (to encourage and mandate transparency).

- But at the same time, Liberia is threatened with being delisted as a member of the Extractive Industries Transparency Initiative (EITI) due to past improprieties in the appointment of the management of the Liberian EITI organization (LEITI) and its failure to produce required reports.

- In addition, the country is currently subject to Inter-Governmental Action Group against Money Laundering in West Africa (GIABA's) expedited follow-up process with respect to the monitoring of improvements to its AML/CFT regime since its last mutual evaluation. It is important that Liberia is able to demonstrate tangible improvement since it last reported to GIABA, to avoid the possibility of more enhanced measures being applied.

Key Elements of the Program

40. Many elements of the program are directly aimed at improving governance, thereby reducing vulnerabilities to corruption. These include measures to improve PFM (¶18), strengthen central bank governance (¶27), improve reporting of fiscal, SOEs, and foreign exchange data (¶18, ¶21, ¶32, respectively), and strengthen tax administration (¶20) and tax collection from SOEs (Text Table 1), which collectively would significantly contribute to improving governance under the program.

41. In addition, the authorities aim to strengthen governance by:

- Strengthening the anti-corruption regime, which will involve amendments to the Penal Code to criminalize all acts of corruption and establishing a special fast track process for prosecuting corruption by end-June 2020 (SB, MEFP ¶43).

- Using anti-money laundering (AML) tools to combat corruption, which will involve issuing regulations on opening and managing accounts of politically exposed persons (PEPs) and strengthening fit and proper provisions when licensing financial institutions).[9]

- Strictly enforcing the asset declaration regime by centralizing the submission of asset declarations to the Liberian Anti-Corruption Commission (LACC), providing the LACC with necessary verification powers, including dissuasive and proportionate sanctions for noncompliance, and granting public access to asset disclosure information in accordance with the current Code of Conduct (MEFP ¶43).

- In addition, the government has recently initiated serious mitigation measures to reverse the recent deterioration in LEITI's performance and to avoid a de-listing. These include the replacement of LEITI management with internationally recognized individuals and the initiation of close consultation with EITI through periodic progress briefings and provision of regular status updates on mitigation measures carried out. Moreover, to become current on its reporting obligations more quickly, an agreement was reached with EITI that will allow LEITI to combine its overdue 10th and 11th Annual Reports, and LEITI has engaged an internationally recognized and experienced consulting company to prepare this report in a timely manner.

STATISTICAL ISSUES AND CAPACITY DEVELOPMENT

42. For the preparation of this program, considerable TA have been mobilized from various functional departments of the IMF. Improved fiscal, monetary, and foreign exchange data reporting was facilitated by substantial TA from the IMF's Statistics Department (STA) and Monetary and Capital Market Department (MCM). Introducing a new monetary policy framework received

[9] The CBL, with support under a Fund AML/CFT capacity development project, has also taken steps to generally develop risk-based approaches to AML/CFT supervision.

several TA and iterations with MCM and the Legal Department (LEG). Improvements in the PFM and cash management and controls received several TAs from the Fiscal Affairs Department (FAD). Improving governance—especially on AML/CFT-related issues—received a number of TA visits from LEG. Moreover, TA to examine potential tax policy measures (FAD), to analyze the CBL's operational budget (MCM), and to assess currency management and controls (MCM) were dispatched after the program request was received.

43. Going forward, the program needs to be supported by focused capacity development efforts. TA has been targeted to key fiscal and monetary areas—including PFM, statistics, and domestic revenue mobilization—to support implementation of program policies and reforms (Annex III).

REQUEST FOR FUND SUPPORT

Facility

44. Based on the strong up-front reform effort demonstrated by the authorities, staff proposes a four-year Extended Credit Facility (ECF)-supported program. The new ECF arrangement is expected to address the country's protracted balance of payments problems by supporting policies required to stabilize and revive the economy. The program also aims to catalyze significant donor support in the form of grants, which is critical to implement the authorities' reform agenda. A program of four years (Table 6) is proposed to provide the time to implement the ambitious structural reform agenda.

Access and Phasing

45. Staff propose access of 60 percent of quota phased in nine broadly even disbursements (Table 7). Staff estimates that access of 60 percent of quota (SDR 155 million or US$214.3 million) would be sufficient to close the balance of payments financing gap and help the CBL rebuild buffers (gross official foreign exchange reserves will recover to 2.6 months of imports by 2023). Such proposed access is below the access norm of 120 percent of quota (or 160 percent of quota for a 4-year program) for a low-income country with outstanding IMF credit under all facilities of less than 100 percent of quota (Liberia's outstanding purchases and loans are 59.77 percent of quota as of April 30, 2019). However, relative to GDP, cumulative IMF credit under the program peaks at 8.3 percent of GDP (Table 8), which is close to the highest among PRGT-eligible countries. Thus, a program with below-norm access that can catalyze substantial external support, in the form of grants, is preferred. The program is fully financed for the next twelve months with good prospects thereafter.

Poverty Reduction Strategies (PRS) and Social Spending

46. The program is in line with the authorities' PAPD which aims to boost growth through physical and human capital investment within a stable macroeconomic environment. In this regard, the PAPD has made improvements to PFM and fighting of corruption cornerstones of the authorities' reform program. The program establishes an indicative floor on-budget spending on teachers and core clinical health workers, as well as spending on the home-grown school feeding program to encourage children to attend school.

Capacity to Repay the Fund

47. Considering Liberia's sustainable debt position, staff considers that Liberia has adequate capacity to repay the Fund (Table 8). This assessment is based on Liberia's track record in meeting its obligations to the Fund, the strength of the program, the catalytic role the program will play to invite substantial external support, the favorable medium-term outlook, and a sustainable debt position.

Safeguards Assessments

48. The 2019 update safeguards assessment, which is substantially completed, found that governance and controls at the CBL have deteriorated significantly. The central bank has had significant lending to the government that exceeded limits in the CBL Act and the lack of a permanent Board of Directors impacted its governance, accountability, and oversight. Furthermore, a recent Kroll report on currency operations and the external auditors' findings have highlighted a need to strengthen internal controls. A number of the recommended remedial actions have been included in program conditionality under the new arrangement.

STAFF APPRAISAL

49. The goals of the program are appropriately focused given capacity constraints. In the short term, a focus on regaining macroeconomic stability, particularly price stability, is essential to arrest the ongoing deterioration in living standards of the poorest Liberians. Staff considers that actions in this regard, alongside other measures to address weaknesses in governance and institutions, will provide sufficient critical reform momentum to strengthen private sector confidence over the short- and medium terms, increase the level and quality of private investment, and lay the foundations for high, fiscally sustainable, and inclusive growth into the medium term.

50. The success of the economic program is predicated on strict adherence to the fiscal limits laid out in relevant budget laws. Given the fiscal slippages of the last two years, it is critical for budget credibility, and more generally to private sector confidence, that the recently instituted fiscal control processes be fully implemented to prevent the occurrence of domestic payment arrears in an environment of high downside risk to the domestic revenue projection. The significant improvement in fiscal reporting, undertaken as a prior action for program approval, has provided the technical means for success in this area. Similarly, adherence to the budget prohibition on government borrowing from the CBL is key to preventing unprogrammed reserve losses or an undercutting of the disinflation effort. Moreover, strengthening tax policy and administration over the program period is critical to ensure that the public sector can operate effectively. It is therefore essential to ensure a proper mapping of tax payers, tax types, and tax accounts, and to procure an upgraded Information Technology Tax System (ITAS).

51. Staff notes the critical role that wage policy and civil service reform played in the creation of a credible FY2020 budget. The reduction of the nominal compensation of employees was socially difficult, but necessary to bring the budget into balance and prevent further crowding out of productive expenditure. It is commendable that the restructuring was carried out in a progressive manner that redistributed income towards the lowest paid employees, while increasing transparency and equity. Over the medium term, it will be necessary to hold the line firmly on the size of the compensation of employees while exploring opportunities for further economies and savings that could free up additional resources for development.

52. Staff supports the authorities' recent adoption of new, interest rate-based instruments of monetary policy and their aggressive deployment to reduce inflation. The new instruments are appropriate to the monetary and external conditions currently prevailing in Liberia and, if properly implemented and managed, are expected to be effective in reducing Liberia's inflation rate over the medium term.

53. External vulnerabilities are significant and will require careful management. Foreign reserve stocks have fallen to low levels. Improving this will require adhering to the program prohibition on borrowing from the CBL, successful containment of the CBL's operational expenses, and sharp limits on foreign exchange intervention. It is noteworthy that the foreign exchange market, though somewhat fragmented, nonetheless appears to be allocating resources in an efficient manner. Preserving this situation will necessitate close adherence to the obligations of Article VIII and the avoidance of new MCPs and ERs.

54. The program preserves fiscal and debt sustainability. The DSA indicates that Liberia would edge closer to a high risk of external debt distress with only a small change in the terms or a failure to adjust primary expenditure to the available revenue envelope over the medium term. In this regard, the authorities are committed to adhering to the ceiling on non-concessional borrowing, refraining from nontransparent collateralized agreements, and ensuring that new debt is contracted transparently.

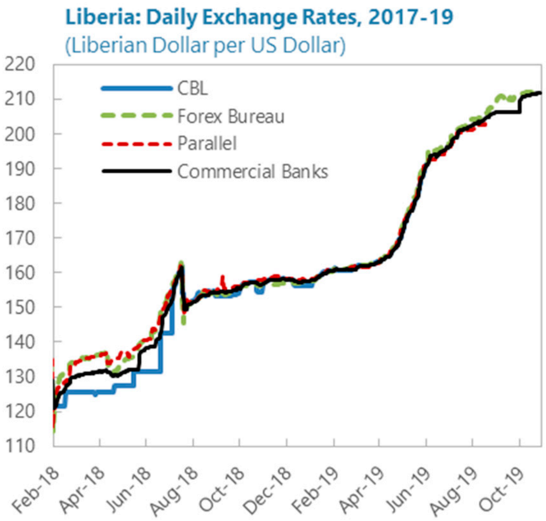
55. Measures to protect and improve financial sector stability are appropriate. Improving data reporting requirements, obtaining an overview of the health of the banking system, and taking decisive measures to ensure financial stability will be important steps in identifying and addressing vulnerabilities. At the same time, work to finalize the Financial Institutions Act amendments will ensure the CBL has the required instruments and authority should remediation be necessary.

56. Governance improvements are key to attracting and retaining high quality private investment in support of economic growth. The program contains a critical mass of measures sufficient to visibly impact the reality and perception of Liberia's anti-corruption program. Medium-term economic success will ultimately require strong follow-through on these commitments.

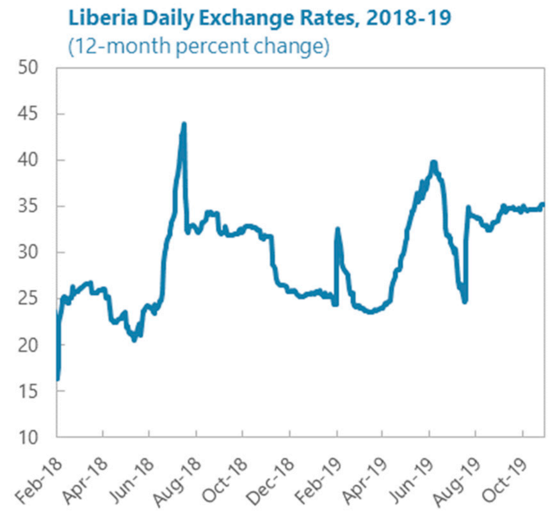
57. Staff supports the authorities' request for a new 4-year ECF-arrangement with access equivalent to SDR 155 million (60 percent of quota). Staff believes the authorities are fully cognizant of the scope of the economic challenges they face and that they recognize the need for full commitment to the reform measures encapsulated in the proposed program.

Figure 1. Liberia: Foreign Exchange Developments, 2017–19

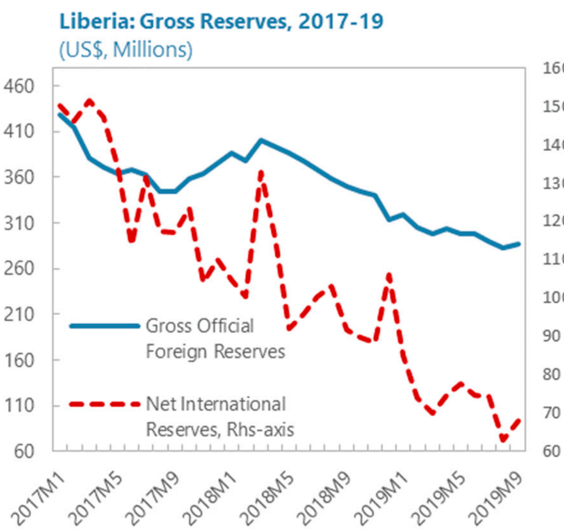
The exchange rate has begun to depreciate rapidly since April 2019…

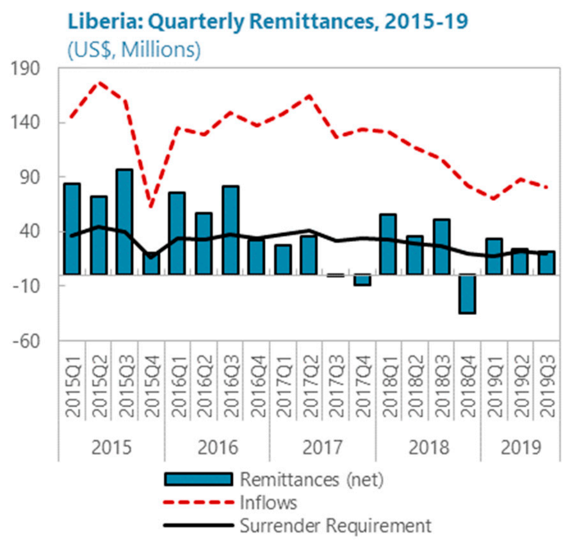


…reflecting the much-reduced availability of foreign exchange in the economy.



Gross international reserves continue to decline, as much reduced volume of remittance inflows (surrenders) to the CBL remain low, while the CBL's operational expenses and the CBL credit to the government remain high.



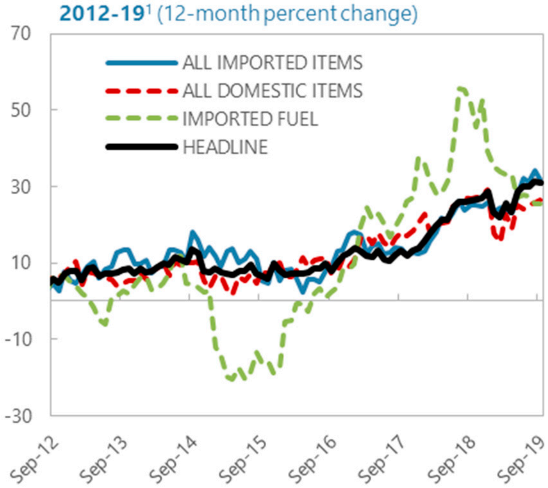


Sources: Central Bank of Liberia; and IMF staff calculations.

Figure 2. Liberia: Monetary Developments, 2012–19

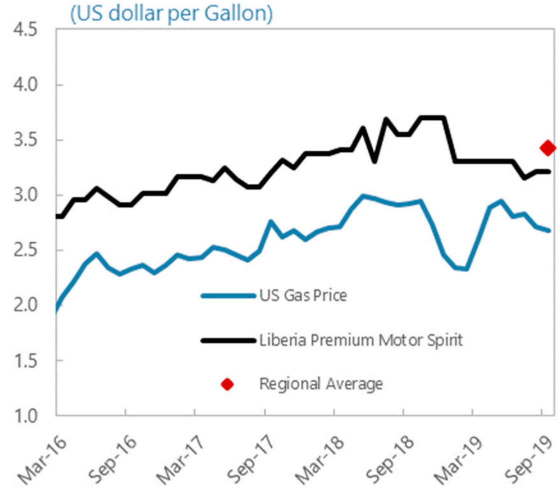
The inflation rate remains on par with the rate of deprecation at about 30 percent y-o-y in July 2019…

Liberia: Developments in Prices of Imports, 2012-19[1] (12-month percent change)



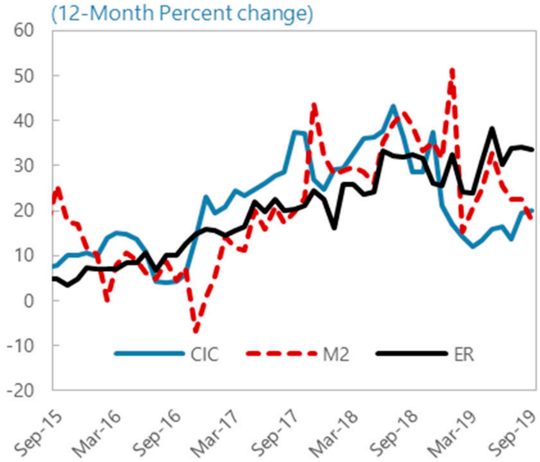
…despite a decline in fuel prices.

Liberia: Imported Fuel Price, 2016-19[2] (US dollar per Gallon)



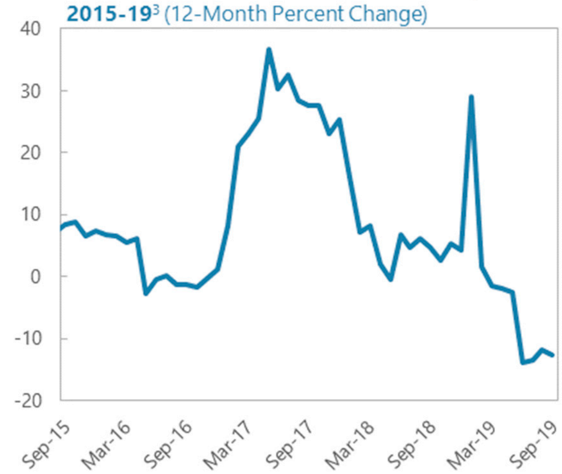
In this highly inflationary environment, the growth of monetary aggregates began to slow because of the shortage of the stock of banknotes.

Liberia: Cash in circulation Growth, 2015-19 (12-Month Percent change)



In line with the sharp decline in monetary aggregates, private sector credit growth also remains in the negative territory since March 2019.

Liberia: Claims on Private Sector Growth, 2015-19[3] (12-Month Percent Change)



Sources: Central Bank of Liberia, and IMF staff calculations, US Energy Information Administration, Global Petrol Prices.

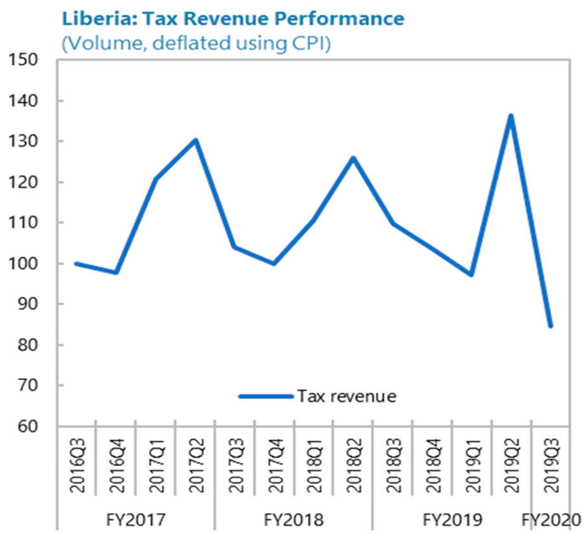
[1]Effective January 2019, Liberian authorities have rebased inflation using the 2016 Household Income and Expenditure Survey which calcualtes the 2004 base year usigna a regional average consumption basket.

[2]Regional average based on prices in ECOWAS member countries as of October 2019.

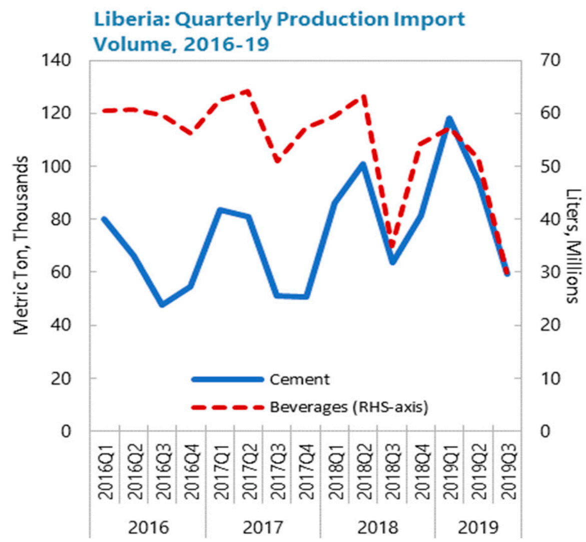
[3]A significant portion of Liberian credit is expressed in US Dollars, as such, private sector credit growth has been plotted using U.S. dollar values.

Figure 3. Liberia: Recent Economic Developments, 2016–19

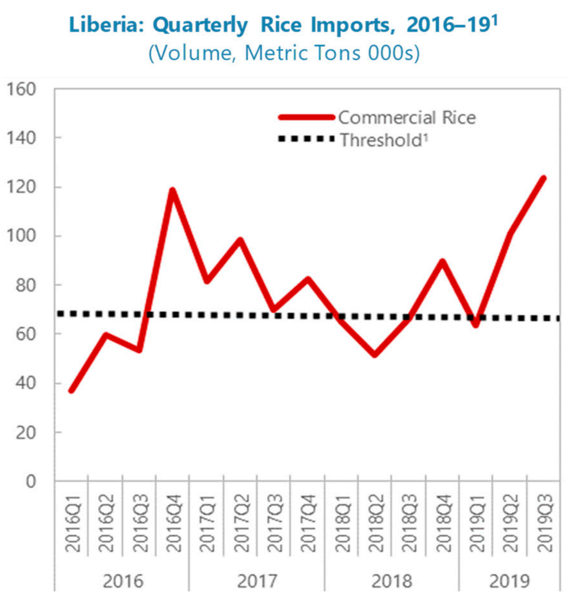
Data to capture recent economic activity are limited in Liberia, but there are a few leading indicators. First, the tax base on international trade is on the rise in the first half of 2019.



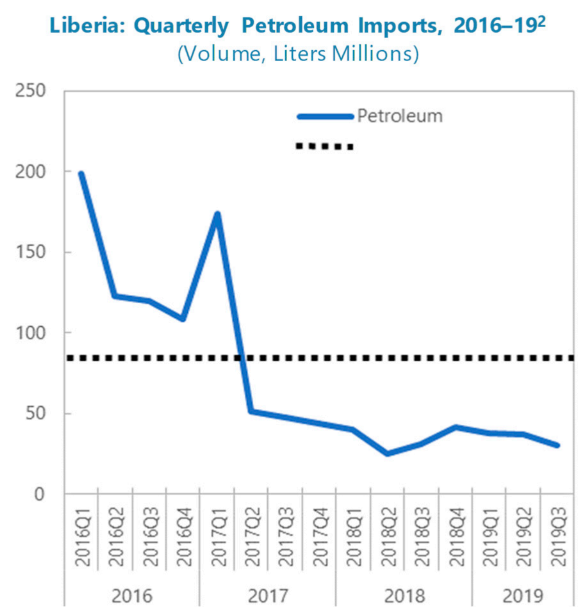
Second, other indicators of the economy such as cement and beverages also show no significant change in consumption or construction.



Third, imports of staple goods have rebounded from 2018 with imports of rice nearly doubling in the first half of 2019…



… though the volume of fuel imports seems to remain below what is considered adequate.



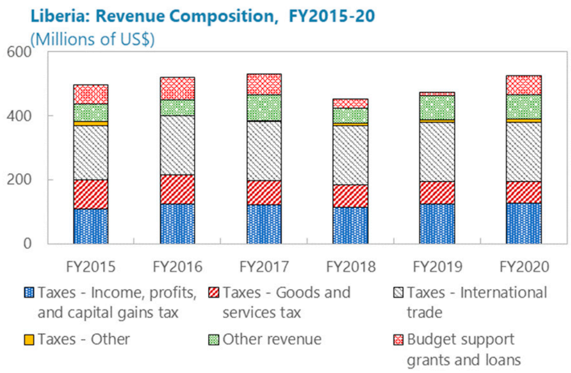
Sources: Central Bank of Liberia, and IMF staff calculations.

[1]Quarterly average rice imports needed to meet 400g rice per person per day criteria (World Food Program).

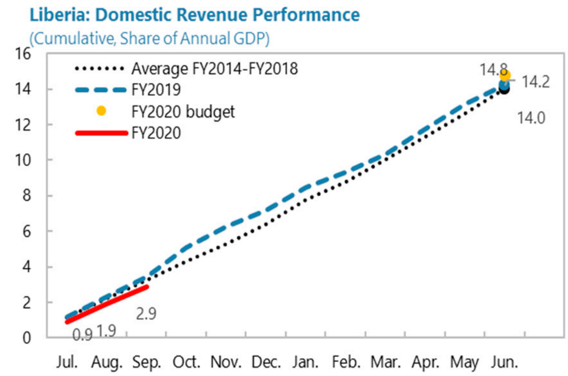
[2]Quarterly average fuel imports considered adequate by Liberia Peroleum Refining Company (LPRC).

Figure 4. Liberia: Fiscal Performance, FY2014–20

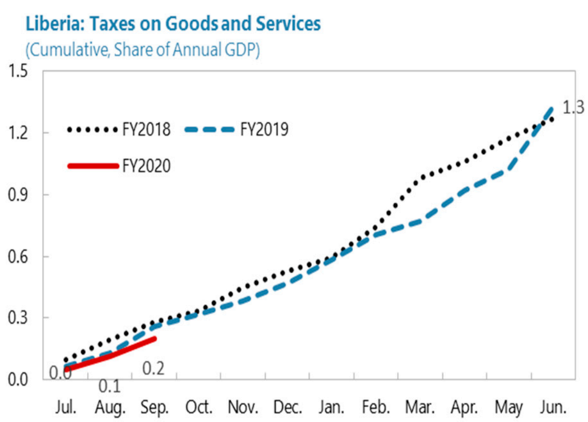
FY2020 is anticipating a large budget support, but…



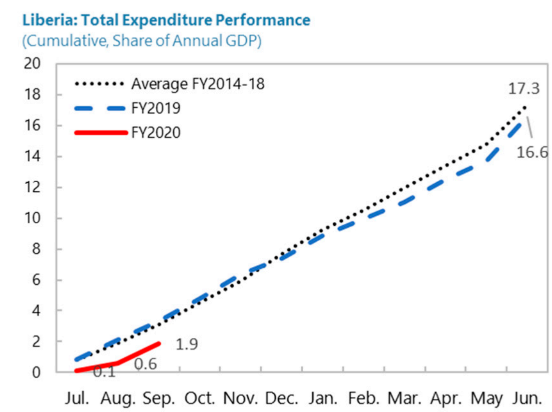
…domestic revenue is coming in low realtive the historical averages …



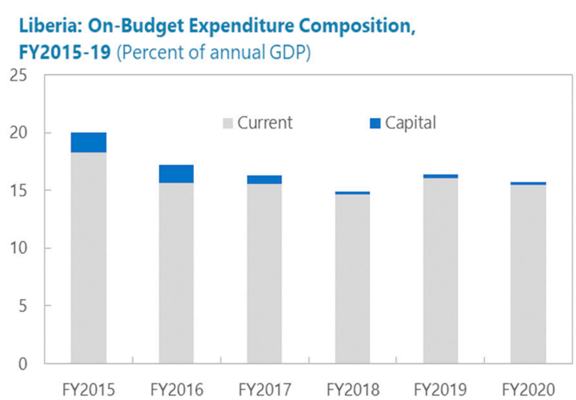
.. and the shortfalls are across the board.



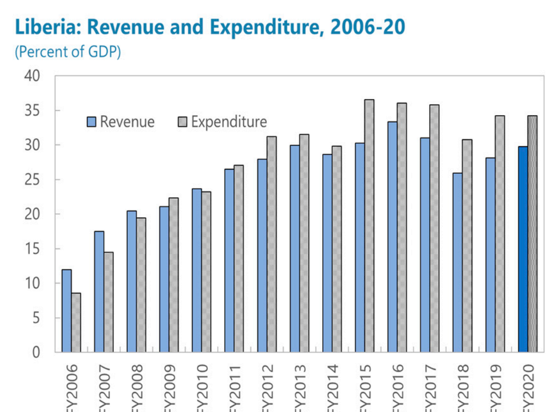
With limited resources, expenditure in FY2020 has been been reduced…



and its composition is skewed to current spending.



The fiscal deficit is projected to decline in FY2020.



Sources: Liberian authorities; and IMF staff calculations.

Table 1. Liberia: Selected Economic and Financial Indicators, 2017–24

	2017	2018	2019		2020		2021	2022	2023	2024
	Act.	Act.	2019 AIV	Proj.	2019 AIV	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change)									
Real sector										
Real GDP	2.5	1.2	0.4	-1.4	1.6	1.4	3.4	4.2	4.9	5.4
of which, Mining & panning	28.8	24.2	13.2	13.2	9.7	9.7	6.8	6.6	5.6	6.0
of which, Non-mining	0.2	-1.3	-1.4	-3.4	0.2	0.0	2.7	3.8	4.8	5.3
Nominal non-mining per capita GDP (U.S. dollars)	695	660	577	621	613	594	582	589	605	626
Nominal GDP (millions of U.S. dollars)	3284	3264	3221	3155	3217	3099	3131	3360	3552	3781
Inflation										
Consumer prices (annual average)	13.2	21.2	24.5	28.0	20.5	21.3	13.5	11.0	8.5	7.0
Consumer prices (end of period)	13.9	28.5	22.0	27.5	19.0	15.0	12.0	10.0	7.0	7.0
Population (millions)	4.4	4.5	4.6	4.6	4.7	4.7	4.8	4.9	5.1	5.2
	(Percent of GDP, fiscal year)									
Central government operations[1]										
Total revenue and grants	31.0	25.9	28.0	28.2	28.4	29.9	29.8	29.3	28.4	27.8
Total revenue	14.3	12.9	13.7	14.4	14.1	14.9	15.9	16.5	17.0	17.5
Grants	16.7	13.0	14.3	13.8	14.2	15.1	13.9	12.8	11.4	10.3
Total expenditure and net lending	35.8	30.8	34.1	34.3	35.2	34.6	33.5	32.7	32.4	31.6
Current expenditure	22.9	21.3	22.8	23.3	23.2	22.7	22.0	21.2	20.2	20.1
Capital expenditure	12.9	9.5	11.3	11.0	12.0	11.9	11.5	11.5	12.2	11.5
Overall fiscal balance, including grants	-4.8	-4.8	-6.1	-6.1	-6.8	-4.7	-3.7	-3.4	-4.0	-3.8
Overall fiscal balance, excluding grants	-21.5	-17.8	-20.4	-19.9	-21.1	-19.7	-17.6	-16.2	-15.4	-14.0
Financing gap / unidentified financing	0.0	0.0	-0.9	0.0	-1.1	0.0	0.0	0.0	0.0	0.0
Public external debt[2]	22.7	28.4	34.1	34.9	38.6	41.7	45.8	48.1	48.8	49.0
Public domestic debt[3]	n.a	11.7	14.4	19.2	15.8	19.1	18.3	16.9	15.4	14.2
	(Percent, unless otherwise indicated)									
M2/GDP	18.6	19.6	23.6	17.1	24.5	16.7	16.3	15.5	15.3	15.3
Credit to private sector (percent of GDP)	15.4	16.3	16.4	16.8	16.8	17.3	17.8	17.3	17.2	17.1
Credit to private sector (annual percent change)	25.3	4.7	5.3	-0.3	2.4	1.3	3.7	4.5	5.0	6.2
Velocity (GDP-to-M2)	5.4	5.1	4.2	5.9	4.1	6.0	6.2	6.5	6.6	6.6
Money multiplier (M2/M0)	2.4	2.7	3.9	3.1	3.9	2.9	2.9	3.0	3.1	3.3
	(Percent of GDP, unless otherwise indicated)									
External sector										
Current account balance										
including grants	-23.4	-23.4	-23.3	-21.1	-23.1	-21.4	-21.9	-19.7	-19.7	-18.9
excluding grants	-43.6	-38.1	-37.6	-35.6	-37.4	-35.9	-35.5	-31.7	-30.5	-29.2
Trade balance	-20.2	-18.4	-14.7	-14.1	-13.5	-13.4	-12.3	-11.0	-10.5	-10.0
Exports	13.0	16.6	18.0	18.3	19.6	20.3	21.9	21.9	22.2	22.5
Imports	-33.2	-35.0	-32.7	-32.5	-33.1	-33.7	-34.2	-32.9	-32.7	-32.5
Grants (donor transfers, net)	20.2	14.7	14.3	14.5	14.3	14.6	13.5	12.0	10.8	10.3
Financing gap (- deficit / + surplus)	0.0	0.0	-1.0	-0.7	-0.9	-1.5	-1.5	-1.4	-1.4	0.0
Gross official reserves (millions of U.S. dollars)[4]	376	313	261	279	173	308	333	354	381	368
Months of imports of goods and services[5]	2.7	2.4	2.1	2.1	1.3	2.3	2.4	2.5	2.6	2.3
CBL's net international reserves (millions of U.S. dollars)	110	69	95	44	127	54	63	74	89	109

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

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

[2] Ratios are calculated using external debt (in USD) evaluated at the end of period exchange rate over GDP (in USD) evaluated at the period average exchange rate.

[3] Including the central government debts from the Central Bank of Liberia.

[4] Proposed ECF disbursements are included.

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

Table 2. Liberia: Balance of Payments, 2017–24

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

	2017	2018	2019		2020		2021	2022	2023	2024
	Act.	Act.	2019 AIV	Proj.	2019 AIV	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance[1]	-663	-601	-473	-446	-434	-414	-385	-368	-373	-378
Exports, f.o.b.	427	543	579	578	631	630	685	737	790	850
of which: Iron ore	88	145	157	157	162	162	177	186	195	205
of which: Gold	130	226	226	268	326	303	326	360	390	460
Imports, c.i.f.	-1,090	-1,144	-1,052	-1,024	-1,065	-1,044	-1,070	-1,105	-1,163	-1,228
Services (net)	-539	-328	-338	-319	-333	-309	-321	-320	-330	-340
Income (net)	-301	-442	-531	-523	-573	-564	-587	-569	-579	-564
of which: Compensation of employees	-23	-28	-32	-32	-35	-35	-41	-45	-47	-51
of which: Public interest payments due	-7	-9	-20	-13	-23	-15	-16	-23	-27	-25
Current transfers	735	606	591	623	597	626	605	594	584	569
Current account balance	-769	-765	-751	-665	-743	-662	-687	-662	-699	-713
Current account balance, excluding grants	-1,432	-1,244	-1,210	-1,122	-1,202	-1,114	-1,110	-1,066	-1,083	-1,104
Capital and financial account (net)	708	705	635	622	652	672	697	673	714	733
Capital account	55	53	52	52	51	51	42	41	39	40
Financial account	653	653	584	570	601	621	655	632	675	693
Foreign direct investment (net)	242	286	342	253	385	282	313	350	350	350
Portfolio investment (net)	0	0	0	0	0	0	0	0	0	0
Other investment (net)	411	367	242	317	216	340	342	282	325	344
Official financing: medium and long term (ne	76	58	147	140	172	141	133	137	125	163
Private financing (net)[2]	334	309	95	177	44	198	208	145	200	181
Overall balance	-61	-59	-115	-43	-91	10	10	11	15	20
Financing	61	59	83	20	64	-56	-56	-57	-64	-20
Change in gross official reserves (increase -)[3]	61	62	97	34	88	-29	-25	-21	-27	14
Net use of IMF credit and loans	0	-3	-15	-14	-24	-27	-31	-36	-37	-33
Donor financing	0	0	0	0	0	0	0	0	0	0
Exceptional financing	0	0	0	0	0	0	0	0	0	0
Financing gap (- deficit / + surplus)	0	0	-32	-23	-28	-47	-47	-47	-49	0
Proposed ECF	0	0	32	23	28	47	47	47	49	0
Memorandum items:										
Current account balance (percent of GDP)										
Including grants	-23.4	-23.4	-23.3	-21.1	-23.1	-21.4	-21.9	-19.7	-19.7	-18.9
Excluding grants	-43.6	-38.1	-37.6	-35.6	-37.4	-35.9	-35.5	-31.7	-30.5	-29.2
Trade balance (percent of GDP)	-20.2	-18.4	-14.7	-14.1	-13.5	-13.4	-12.3	-11.0	-10.5	-10.0
Donor transfers (net, percent of GDP)	20.2	14.7	14.3	14.5	14.3	14.6	13.5	12.0	10.8	10.3
Foreign direct investment (net, percent of GDP)	7.4	8.8	10.6	8.0	12.0	9.1	10.0	10.4	9.8	9.2
Public sector external debt (medium and long term, percent of GDP)[4]	24.9	28.4	34.1	34.9	38.6	41.7	46.0	48.4	49.2	49.6
Gross official reserves[5]	376	313	261	279	173	308	333	354	381	368
Gross official reserves (months of imports)[6]	2.7	2.4	2.3	2.1	2.6	2.3	2.4	2.5	2.6	2.3

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

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

[2] "Private financing" may reflect current transfers that are not captured by the official statistics.

[3] Includes SDR holdings.

[4] Recorded in fiscal years.

[5] Proposed ECF disbursements are included.

[6] In months of next year's imports.

Table 3a. Liberia: Fiscal Operations of the Budgetary Central Government (Including Off-Budget Transactions), 2017–24[1]

(Millions of U.S. dollars)

	FY2017	FY2018	FY2019		FY2020		FY2021	FY2022	FY2023	FY2024
	Act.	Act.	2019 AIV	Prel.	2019 AIV	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	1,006	849	905	905	913	936	927	951	981	1,019
of which : Revenue, excl. grants	464	423	444	462	455	465	495	536	589	642
Taxes	385	376	370	388	379	391	416	449	486	530
Income, profits, and capital gains tax	114	115	115	126	117	127	135	146	155	170
Goods and services tax	76	69	73	70	77	69	79	87	102	114
International trade tax	185	185	174	184	175	185	190	204	217	233
Other taxes[2]	10	8	9	9	10	10	11	11	12	13
Other revenue	79	47	74	74	76	74	79	87	103	113
Grants	542	425	461	443	458	471	432	414	393	377
Expense	728	696	737	748	747	711	684	689	699	737
Compensation of employees	289	306	325	325	332	297	296	297	298	308
Use of goods and services	363	322	336	347	325	332	306	304	298	313
Interest	9	20	32	32	43	31	31	32	45	48
Subsidies and grants	65	47	43	44	47	50	50	55	57	66
Social benefits	2	1	0	0	1	1	1	1	1	1
Net operating balance	277	152	168	157	165	225	242	262	283	282
Gross investment in nonfinancial assets	411	311	365	355	385	371	358	372	421	420
Overall balance = Net lending/borrowing	-133	-159	-197	-197	-220	-146	-116	-111	-139	-138
excl. Grants	-675	-584	-658	-640	-678	-617	-548	-525	-531	-515
Primary balance	-124	-139	-165	-166	-177	-115	-84	-78	-93	-90
excl. Grants	-665	-565	-626	-609	-635	-586	-517	-493	-486	-467
Financing	-133	-159	-167	-197	-185	-146	-116	-111	-139	-138
Transactions in financial assets	4	-24	...	-89	...	0	0	0	0	0
Deposits	4	-24	...	-89	...	0	0	0	0	0
Loans (policy lending)	0	0	...	0	...	0	0	0	0	0
Transaction in liabilities	170	126	...	161	...	146	121	121	149	148
Loans	125	130	...	145	...	158	130	130	159	158
External (net)	117	112	...	137	...	164	122	120	147	146
Disbursements	122	124	...	145	...	175	150	150	180	180
Amortization (-)	-4	-13	...	-8	...	-11	-28	-30	-32	-34
Domestic (net)	8	19	...	8	...	-6	8	10	11	11
o/w CBL	8	-22	...	8	...	-2	12	13	15	15
Disbursements	17	-22	...	8	...	4	18	20	22	22
Amortization (-)	-9	-22	...	0	...	-6	-6	-6	-6	-6
Debt Securities[3]	45	-4	...	16	...	-12	-9	-9	-10	-10
Bank	45	-4	...	16	...	-12	-9	-9	-10	-10
Nonbank	0	0	...	0	...	0	0	0	0	0
Change in accounts payable (+ increase/-decrease in arrears)	33	-8	...	52	...	0	-5	-10	-10	-10
Financing gap / unidentified financing	0	0	-30	0	-35	0	0	0	0	0
Memorandum items :										
Total public debts	1,134	1,230	1,569	1,631	1,751	1,787	1,902	2,025	2,148	2,256
External	736	847	1,103	1,016	1,242	1,188	1,330	1,477	1,617	1,737
Domestic[4]	398	383	466	615	509	598	572	548	531	519
Commodity revenue										
of which : Mining										
Fiscal year GDP	3,244	3,274	3,235	3,210	3,219	3,127	3,115	3,246	3,456	3,667

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

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

[2] Including property tax and social contribution by foreign concessions.

[3] Including net issuance of T-bill and T-bond.

[4] Including the central government debt from the Central Bank of Liberia, which was not included prior to 2019 Article IV Consultation.

Table 3b. Liberia: Fiscal Operations of the Budgetary Central Government (Including Off-Budget Transactions), 2017–24[1]

(Percent of GDP, unless otherwise indicated)

	FY2017	FY2018	FY2019		FY2020		FY2021	FY2022	FY2023	FY2024
	Act.	Est.	2019 AIV	Prel.	2019 AIV	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	31.0	25.9	28.0	28.2	28.4	29.9	29.8	29.3	28.4	27.8
of which : Revenue, excl. grants	14.3	12.9	13.7	14.4	14.1	14.9	15.9	16.5	17.0	17.5
Taxes	11.9	11.5	11.4	12.1	11.8	12.5	13.3	13.8	14.1	14.4
Income, profits, and capital gains tax	3.5	3.5	3.6	3.9	3.6	4.1	4.3	4.5	4.5	4.6
Goods and services tax	2.3	2.1	2.2	2.2	2.4	2.2	2.5	2.7	2.9	3.1
International trade tax	5.7	5.6	5.4	5.7	5.4	5.9	6.1	6.3	6.3	6.3
Other taxes[2]	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Other revenue	2.4	1.4	2.3	2.3	2.4	2.4	2.5	2.7	3.0	3.1
Grants	16.7	13.0	14.3	13.8	14.2	15.1	13.9	12.8	11.4	10.3
Expense	22.4	21.3	22.8	23.3	23.2	22.7	22.0	21.2	20.2	20.1
Compensation of employees	8.9	9.4	10.0	10.1	10.3	9.5	9.5	9.1	8.6	8.4
Use of goods and services	11.2	9.9	10.4	10.8	10.1	10.6	9.8	9.4	8.6	8.5
Interest	0.3	0.6	1.0	1.0	1.3	1.0	1.0	1.0	1.3	1.3
Subsidies and grants	2.0	1.4	1.3	1.4	1.5	1.6	1.6	1.7	1.6	1.8
Social benefits	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net operating balance	8.6	4.7	5.2	4.9	5.1	7.2	7.8	8.1	8.2	7.7
Gross investment in nonfinancial assets	12.7	9.5	11.3	11.1	12.0	11.9	11.5	11.5	12.2	11.5
Overall balance = Net lending/borrowing	-4.1	-4.8	-6.1	-6.1	-6.8	-4.7	-3.7	-3.4	-4.0	-3.8
excl. Grants	-20.8	-17.8	-20.3	-19.9	-21.1	-19.7	-17.6	-16.2	-15.4	-14.0
Primary balance	-3.8	-4.2	-5.1	-5.2	-5.5	-3.7	-2.7	-2.4	-2.7	-2.5
excl. Grants	-20.5	-17.2	-19.3	-19.0	-19.7	-18.8	-16.6	-15.2	-14.1	-12.7
Financing	-4.1	-4.8	-5.2	-6.1	-5.7	-4.7	-3.7	-3.4	-4.0	-3.8
Transactions in financial assets	0.1	-0.7	...	-2.8	...	0.0	0.0	0.0	0.0	0.0
Deposits	0.1	-0.7	...	-2.8	...	0.0	0.0	0.0	0.0	0.0
Loans (policy lending)	0.0	0.0	...	0.0	...	0.0	0.0	0.0	0.0	0.0
Transaction in liabilities	5.2	3.8	...	5.0	...	4.7	3.9	3.7	4.3	4.0
Loans	3.9	4.0	...	4.5	...	5.1	4.2	4.0	4.6	4.3
External (net)	3.6	3.4	...	4.3	...	5.2	3.9	3.7	4.3	4.0
Disbursements	3.8	3.8	...	4.5	...	5.6	4.8	4.6	5.2	4.9
Amortization (-)	-0.1	-0.4	...	-0.2	...	-0.3	-0.9	-0.9	-0.9	-0.9
Domestic (net)	0.2	0.6	...	0.2	...	-0.2	0.2	0.3	0.3	0.3
o/w CBL	0.2	-0.7	...	0.2	...	-0.1	0.4	0.4	0.4	0.4
Disbursements	0.5	-0.7	...	0.2	...	0.1	0.6	0.6	0.6	0.6
Amortization (-)	-0.3	-0.7	...	0.0	...	-0.2	-0.2	-0.2	-0.2	-0.2
Debt Securities[3]	1.4	-0.1	...	0.5	...	-0.4	-0.3	-0.3	-0.3	-0.3
Bank	1.4	-0.1	...	0.5	...	-0.4	-0.3	-0.3	-0.3	-0.3
Nonbank	0.0	0.0	...	0.0	...	0.0	0.0	0.0	0.0	0.0
Change in accounts payable (+ increase/-decrease in arrears)	1.0	-0.3	...	1.6	...	0.0	-0.2	-0.3	-0.3	-0.3
Financing gap / unidentified financing	0.0	0.0	-0.9	0.0	-1.1	0.0	0.0	0.0	0.0	0.0
Memorandum items :										
Total public debts	35.0	37.6	48.5	54.1	54.4	60.8	64.1	65.0	64.2	63.2
External[4]	22.7	28.4	34.1	34.9	38.6	41.7	45.8	48.1	48.8	49.0
Domestic[5]	12.3	11.7	14.4	19.2	15.8	19.1	18.3	16.9	15.4	14.2
Fiscal year GDP	3,244	3,274	3,235	3,210	3,235	3,127	3,115	3,246	3,456	3,667

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

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

[2] Including property tax and social contribution by foreign concessions.

[3] Including net issuance of T-bill and T-bond.

[4] Ratios are calculated using external debt (in USD) evaluated at the end of period exchange rate over GDP (in USD) evaluated at the period average exchange rate.

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

Table 3c. Liberia: Fiscal Operations of the Budgetary Central Government, 2017–24[1]

(Millions of U.S. dollars)

	FY2017	FY2018	FY2019		FY2020		FY2021	FY2022	FY2023	FY2024
	Act.	Act.	2019 AIV	Prel.	2019 AIV	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	531	454	475	474	486	526	537	579	628	682
of which: Revenue, excl. grants	464	423	444	462	455	465	495	536	589	642
Taxes	385	376	370	388	379	391	416	449	486	530
Income, profits, and capital gains tax	114	115	115	126	117	127	135	146	155	170
Goods and services tax	76	69	73	70	77	69	79	87	102	114
International trade tax	185	185	174	184	175	185	190	204	217	233
Other taxes[2]	10	8	9	9	10	10	11	11	12	13
Other revenue	79	47	74	74	76	74	79	87	103	113
Grants	67	30	31	13	32	61	42	43	39	40
Expense	497	481	507	517	522	489	490	512	539	582
Compensation of employees	289	306	325	325	332	297	296	297	298	308
Use of goods and services	132	107	106	115	99	110	112	127	138	158
Interest	9	20	32	32	43	31	31	32	45	48
Subsidies and grants	65	47	43	44	47	50	50	55	57	66
Social benefits	2	1	0	0	1	1	1	1	1	1
Net operating balance	34	-27	-32	-42	-35	37	47	67	89	101
Gross investment in nonfinancial assets	51	7	8	8	6	9	13	28	48	59
Overall balance = Net lending/borrowing	-17	-34	-40	-51	-41	29	34	39	41	42
excl. Grants	-84	-65	-71	-63	-73	-32	-8	-4	2	2
Primary balance	-8	-15	-8	-18	2	60	65	72	87	90
excl. Grants	-75	-45	-39	-31	-30	-2	23	29	48	50
Financing	-17	-34	55	-51	-6	29	34	39	41	42
Transactions in financial assets	4	-24	…	-89	…	0	0	0	0	0
Deposits	4	-24	…	-89	…	0	0	0	0	0
Loans (policy lending)	0	0	…	0	…	0	0	0	0	0
Transaction in liabilities	54	2	…	14	…	-29	-29	-29	-31	-32
Loans	9	6	…	-1	…	-17	-20	-20	-21	-22
External (net)	1	-13	…	-8	…	-11	-28	-30	-32	-34
Disbursements	6	0	…	0	…	0	0	0	0	0
Amortization (-)	-4	-13	…	-8	…	-11	-28	-30	-32	-34
Domestic (net)	8	19	…	7	…	-6	8	10	11	11
o/w CBL	8	20	…	8	…	-2	12	13	15	15
Disbursements	17	20	…	8	…	4	18	20	22	22
Amortization (-)	-9	0		0		-6	-6	-6	-6	-6
Debt Securities[3]	45	-4	…	16	…	-12	-9	-9	-10	-10
Bank	45	-4	…	16	…	-12	-9	-9	-10	-10
Nonbank	0	0	…	0	…	0	0	0	0	0
Change in accounts payable (+ increase/-decrease in arrears)	33	-8	…	52	…	0	-5	-10	-10	-10
Financing gap / unidentified financing	0	0	-30	0	-35	0	0	0	0	0
Memorandum items:										
Total public debts	1,134	1,230	1,569	1,631	1,751	1,787	1,902	2,025	2,148	2,256
External	736	847	1,103	1,016	1,242	1,188	1,330	1,477	1,617	1,737
Domestic[4]	398	383	466	615	509	598	572	548	531	519
Commodity revenue										
of which: Mining										
Fiscal year GDP	3,244	3,274	3,235	3,210	3,219	3,127	3,115	3,246	3,456	3,667

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

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

[2] Including property tax and social contribution by foreign concessions.

[3] Including net issuance of T-bill and T-bond.

[4] Including the central government debt from the Central Bank of Liberia, which was not included prior to 2019 Article IV Consultation.

Table 3d. Liberia: Fiscal Operations of the Budgetary Central Government, 2017–24[1]

(Percent of GDP, unless otherwise indicated)

	FY2017	FY2018	FY2019		FY2020		FY2021	FY2022	FY2023	FY2024
	Act.	Act.	2019 AIV	Prel.	2019 AIV	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	16.4	13.9	14.7	14.8	15.1	16.8	17.2	17.8	18.2	18.6
of which : Revenue, excl. grants	14.3	12.9	13.7	14.4	14.1	14.9	15.9	16.5	17.0	17.5
Taxes	11.9	11.5	11.4	12.1	11.8	12.5	13.3	13.8	14.1	14.4
Income, profits, and capital gains tax	3.5	3.5	3.6	3.9	3.6	4.1	4.3	4.5	4.5	4.6
Goods and services tax	2.3	2.1	2.2	2.2	2.4	2.2	2.5	2.7	2.9	3.1
International trade tax	5.7	5.6	5.4	5.7	5.4	5.9	6.1	6.3	6.3	6.3
Other taxes[2]	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Other revenue	2.4	1.4	2.3	2.3	2.4	2.4	2.5	2.7	3.0	3.1
Grants	2.1	0.9	1.0	0.4	1.0	2.0	1.3	1.3	1.1	1.1
Expense	15.3	14.7	15.7	16.1	16.2	15.6	15.7	15.8	15.6	15.9
Compensation of employees	8.9	9.4	10.0	10.1	10.3	9.5	9.5	9.1	8.6	8.4
Use of goods and services	4.1	3.3	3.3	3.6	3.1	3.5	3.6	3.9	4.0	4.3
Interest	0.3	0.6	1.0	1.0	1.3	1.0	1.0	1.0	1.3	1.3
Subsidies and grants	2.0	1.4	1.3	1.4	1.5	1.6	1.6	1.7	1.6	1.8
Social benefits	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net operating balance	1.1	-0.8	-1.0	-1.3	-1.1	1.2	1.5	2.1	2.6	2.7
Gross investment in nonfinancial assets	1.6	0.2	0.3	0.3	0.2	0.3	0.4	0.9	1.4	1.6
Overall balance = Net lending/borrowing	-0.5	-1.0	-1.3	-1.6	-1.3	0.9	1.1	1.2	1.2	1.1
excl. Grants	-2.6	-2.0	-2.2	-2.0	-2.3	-1.0	-0.3	-0.1	0.1	0.1
Primary balance	-0.2	-0.5	-0.2	-0.6	0.1	1.9	2.1	2.2	2.5	2.5
excl. Grants	-2.3	-1.4	-1.2	-1.0	-0.9	-0.1	0.8	0.9	1.4	1.4
Financing	-0.5	-1.0	1.7	-1.6	-0.2	0.9	1.1	1.2	1.2	1.1
Transactions in financial assets	0.1	-0.7	...	-2.8	...	0.0	0.0	0.0	0.0	0.0
Deposits	0.1	-0.7	...	-2.8	...	0.0	0.0	0.0	0.0	0.0
Loans (policy lending)	0.0	0.0	...	0.0	...	0.0	0.0	0.0	0.0	0.0
Transaction in liabilities	1.7	0.1	...	0.4	...	-0.9	-0.9	-0.9	-0.9	-0.9
Loans	0.3	0.2	...	0.0	...	-0.5	-0.6	-0.6	-0.6	-0.6
External (net)	0.0	-0.4	...	-0.2	...	-0.3	-0.9	-0.9	-0.9	-0.9
Disbursements	0.2	0.0	...	0.0	...	0.0	0.0	0.0	0.0	0.0
Amortization (-)	-0.1	-0.4	...	-0.2	...	-0.3	-0.9	-0.9	-0.9	-0.9
Domestic (net)	0.2	0.6	...	0.2	...	-0.2	0.2	0.3	0.3	0.3
o/w CBL	0.2	0.6	...	0.2	...	-0.1	0.4	0.4	0.4	0.4
Disbursements	0.5	0.6	...	0.2	...	0.1	0.6	0.6	0.6	0.6
Amortization (-)	-0.3	0.0	...	0.0	...	-0.2	-0.2	-0.2	-0.2	-0.2
Debt Securities[3]	1.4	-0.1	...	0.5	...	-0.4	-0.3	-0.3	-0.3	-0.3
Bank	1.4	-0.1	...	0.5	...	-0.4	-0.3	-0.3	-0.3	-0.3
Nonbank	0.0	0.0	...	0.0	...	0.0	0.0	0.0	0.0	0.0
Change in accounts payable (+ increase/-decrease in arrears)	1.0	-0.3	...	1.6	...	0.0	-0.2	-0.3	-0.3	-0.3
Financing gap / unidentified financing	0.0	0.0	-0.9	0.0	-1.1	0.0	0.0	0.0	0.0	0.0
Memorandum items :										
Total public debts	35.0	37.6	48.5	54.1	54.4	60.8	64.1	65.0	64.2	63.2
External[4]	22.7	28.4	34.1	34.9	38.6	41.7	45.8	48.1	48.8	49.0
Domestic[5]	12.3	11.7	14.4	19.2	15.8	19.1	18.3	16.9	15.4	14.2
Fiscal year GDP	3,244	3,274	3,235	3,210	3,235	3,127	3,115	3,246	3,456	3,667

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

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

[2] Including property tax and social contribution by foreign concessions.

[3] Including net issuance of T-bill and T-bond.

[4] Ratios are calculated using external debt (in USD) evaluated at the end of period exchange rate over GDP (in USD) evaluated at the period average exchange rate.

[5] Including the central government debt from the Central Bank of Liberia, which was not included prior to 2019 Article IV Consultation.

Table 4. Liberia: Monetary Survey, 2017–24

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

	2017	2018	2019		2020		2021	2022	2023	2024
	Act.	Act.	2019 AIV	Proj.	2019 AIV	Proj.	Proj.	Proj.	Proj.	Proj.
(Central Bank Survey)										
Net foreign assets	47	-18	-58	-74	-117	-68	-62	-56	-45	-29
Foreign Assets	460	385	338	329	419	354	375	392	415	398
o/w Gross reserves	452	384	329	329	241	354	375	392	415	397
Foreign Liabilities	413	403	409	403	446	422	437	448	460	426
o/w ST Foreign Liabilities	225	220	236	223	264	242	257	267	279	246
Net domestic assets	205	253	253	250	319	237	229	226	222	218
Net domestic credit	378	424	400	543	475	551	559	570	575	580
Net claims on government	336	377	363	461	438	461	461	461	461	461
Claims on other public sector	0	0	0	0	0	0	0	0	0	0
Claims on private sector	4	7	4	8	4	8	8	8	8	8
Claims on commercial banks (net)	39	41	32	74	32	82	90	101	106	111
Capital account	-158	-117	0	-156	0	-156	-156	-156	-156	-156
Other items (net)	-15	-53	-147	-136	-155	-157	-174	-187	-197	-206
Monetary base (M0)	252	235	195	176	202	169	166	170	177	189
Monetary base (billions of Liberian dollars)	22	26	39	31	49	35	40	44	47	50
(Depository Corporation Survey)										
Net foreign assets	97	79	54	16	-5	29	35	41	52	68
Net domestic assets	473	514	674	523	760	488	475	480	490	509
Net domestic credit	838	893	978	1027	1078	1033	1054	1079	1108	1145
Net claims on government	329	360	434	497	521	497	497	497	497	497
Claims on public enterprises	0	0	22	0	22	0	0	0	0	0
Claims on private sector	507	531	527	530	540	536	556	582	610	648
Claims on nonbank financial institutions	2	1	11	0	11	0	0	0	0	0
Capital account	-299	-284	-316	-301	-447	-301	-301	-301	-301	-301
Other Items (Net)	-66	-95	-304	-202	-318	-244	-278	-298	-316	-335
Broad money (M2)	611	641	760	539	787	517	509	521	542	577
L$ component	213	206	233	173	241	166	163	167	174	185
L$ Currency in circulation	119	115	n.a.	97	n.a.	93	92	94	97	104
L$ denominated deposits	93	91	114	76	118	73	72	74	77	82
US$ component (deposits only)	398	435	527	366	546	351	346	354	368	392
Memorandum items:										
Gross official reserves[1]	376	313	261	279	173	308	333	354	381	368
Net International Reserves	110	69	95	44	127	54	63	74	89	109
Broad money (annual change) in USD	7.9	4.9	9.7	-15.8	3.5	-4.2	-1.4	2.3	4.1	6.4
Broad money (annual change) in LD	32.1	31.6	40.4	15.0	24.2	12.5	11.9	13.5	11.7	14.2
L$ contribution to broad money growth (in LD)	10.1	7.4	10.6	4.8	7.4	4.0	3.8	4.3	3.7	4.5
US$ contribution to broad money growth (in LD)	22.0	24.2	29.8	10.2	16.8	8.5	8.1	9.1	7.9	9.6
Monetary base (LD component, annual change)	29.2	18.1	51.7	27.2	24.2	15.6	11.9	10.5	7.4	7.4
Net credit to government (annual change)	170.2	9.4	60.5	38.0	20.2	0.0	0.0	0.0	0.0	0.0
Credit to private sector (annual change)	25.3	4.7	5.3	-0.3	2.4	1.3	3.7	4.5	5.0	6.2
Velocity (GDP-to-M2)	5.4	5.1	4.2	5.9	4.1	6.0	6.2	6.5	6.6	6.6
Money multiplier (M2/M0)	2.4	2.7	3.9	3.1	3.9	3.1	3.1	3.1	3.1	3.1

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

[1] Proposed ECF disbursements are included.

Table 5. Liberia: Financial Soundness Indicators, 2014–18

(Percent)

	2014	2015	2016	2017	2018
	Dec.	Dec.	Dec.	Dec.	Oct.
Capital adequacy					
Regulatory capital to risk-weighted assets	20.3	15.5	21.5	18.0	27.6
Reported net capitalization	12.6	11.8	15.9	19.7	19.8
Asset quality					
Non-performing loans to total loans	18.7	15.7	14.8	14.7	13.8
Provisions to non-performing loans net of interest in suspense	61.1	73.5	88.3	65.5	75.1
Provisions to classified loans net of interest in suspense	51.8	63.6	61.1	62.9	68.7
Loan concentration (share of total)[1]					
Agriculture	6.8	7.0	4.4	30.1	30.8
Mining and Quarrying	0.6	0.4	0.1	1.4	5.2
Manufacturing	1.9	2.6	5.4	18.8	10.4
Construction	17.2	14.3	10.6	49.8	53.7
Transportation, Storage, and Communication	7.4	8.7	6.2	…	…
Trade, Hotels, and Restaurants	43.8	43.3	28.2	…	…
Services	6.3	5.6	3.3	…	…
Personal	9.7	10.0	12.4	…	…
Government of Liberia	2.2	2.5	0.0	…	…
Public corporations	1.1	0.7	0.1	…	…
Others	2.8	4.7	29.3	…	…
Earnings and profitability					
Return on assets	0.1	-1.0	0.2	-0.2	1.1
Return on equity	1.0	-9.0	0.8	-1.4	6.4
Non-interest income to total income	51.0	52.4	43.8	42.6	46.8
Net interest margin over average assets	7.4	7.6	2.7	1.4	4.4
Liquidity					
Liquid assets to deposits and designated liabilities	50.4	36.8	51.4	45.6	40.8
Liquid assets to net assets	34.0	26.7	35.6	30.1	0.0
Net loans to deposits	50.4	56.8	72.9	83.4	26.9

Sources: Liberian authorities; and IMF staff estimates.

[1]Classification changed from 2017 in line with ISIC.

Table 6. Liberia: External Financing Requirement and Source, 2017–24

(Millions of U.S. dollars)

			Est.		Projections			
	2017	2018	2019	2020	2021	2022	2023	2024
Total Financing Requirement	-1,371	-1,182	-1,088	-1,143	-1,135	-1,087	-1,110	-1,090
Current account (excluding donor grants)	-1,432	-1,244	-1,122	-1,114	-1,110	-1,066	-1,083	-1,104
Gross Reserves Accumulation (- increase)	61	62	34	-29	-25	-21	-27	14
Total Sources	1,371	1,182	1,065	1,096	1,089	1,041	1,061	1,090
Expected Disbursements (official)	740	537	597	593	556	540	510	553
Grants	664	479	457	452	423	403	385	390
Official financing: medium and long term (	76	58	140	141	133	137	125	163
Capital transfer	55	53	52	51	42	41	39	40
Foreign direct investment	242	286	253	282	313	350	350	350
Private financing (net)	334	309	177	198	208	145	200	181
IMF (net, existing credit)	0	-3	-14	-27	-31	-36	-37	-33
Financing gap	0	0	-23	-47	-47	-47	-49	0
Proposed ECF	0	0	23	47	47	47	49	0
Gross official reserves	376	313	279	308	333	354	381	368
Months of imports	2.7	2.4	2.1	2.3	2.4	2.5	2.6	2.3

Sources: Liberian authorities and IMF staff estimates and projections.

Table 7. Liberia: Schedule of Disbursements Under ECF Arrangement, 2019–23
(Millions of SDR)

Availability Date	Amount	% of Quota	Conditions Necessary for Disbursement[1]
December 9, 2019	17.0	6.59	Executive Board Approval of Four Year ECF arrangement.
June 1, 2020	17.0	6.59	Observance of performance criteria for December 31, 2019, and completion of first review.
December 1, 2020	17.0	6.59	Observance of performance criteria for June 30, 2020, and completion of second review.
June 1, 2021	17.0	6.59	Observance of performance criteria for December 31, 2020, and completion of third review.
December 1, 2021	17.0	6.59	Observance of performance criteria for June 30, 2021, and completion of fourth review.
June 1, 2022	17.0	6.59	Observance of performance criteria for December 31, 2021, and completion of fifth review.
December 1, 2022	17.0	6.59	Observance of performance criteria for June 30, 2022, and completion of six review.
June 1, 2023	18.0	6.98	Observance of performance criteria for December 31, 2022, and completion of seventh review.
November 15, 2023	18.0	6.98	Observance of performance criteria for June 30, 2023, and completion of eight review.
Total for the ECF arrangement	**155.0**		

Source: IMF staff estimates.

[1] Disbursement is also subject to continuous performance criteria.

Table 8. Liberia: Indicators of Capacity to Repay the IMF, 2019–29

(As of October 2019; SDR millions, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Projections										
Fund obligations based on existing credit											
(in millions of SDRs)											
Repayment of principal	10.5	20.0	23.0	26.3	27.3	24.4	18.3	20.4	21.7	25.6	31.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit											
(in millions of SDRs)											
Repayment of principal	10.5	20.0	23.0	26.3	27.3	24.4	18.3	20.4	21.7	25.6	31.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit											
In millions of SDRs	10.5	20.0	23.0	26.3	27.3	24.4	18.3	20.4	21.7	25.6	31.0
In millions of US$	14.5	27.9	31.9	36.6	38.0	33.9	25.5	28.4	30.1	35.6	43.1
In percent of exports of goods and services	1.8	3.2	3.5	3.8	3.8	3.2	2.2	2.3	2.3	2.5	2.9
In percent of debt service 1/	80.2	104.2	77.7	75.4	64.8	54.2	49.6	44.2	52.2	61.2	73.1
In percent of GDP	0.5	0.9	1.0	1.1	1.1	0.9	0.6	0.6	0.6	0.7	0.8
In percent of Gross International Reserves	5.2	9.0	9.6	10.3	10.0	9.2	6.8	7.5	7.9	9.3	11.4
In percent of quota	4.0	7.8	8.9	10.2	10.6	9.4	7.1	7.9	8.4	9.9	12.0
Outstanding Fund credit											
In millions of SDRs	162.6	176.6	187.6	195.3	204.0	179.6	161.3	141.0	119.3	93.7	62.7
In millions of US$	226.2	245.6	260.9	271.6	283.7	249.8	224.4	196.0	165.9	130.3	87.2
In percent of exports of goods and services	28.1	28.6	28.9	28.5	28.2	23.3	19.5	15.9	12.6	9.3	5.8
In percent of external public debt service 1/	1247.3	918.3	634.6	560.0	483.3	399.4	436.9	305.3	287.7	224.1	147.9
In percent of GDP	7.2	7.9	8.3	8.1	8.0	6.6	5.5	4.4	3.5	2.5	1.6
In percent of Gross International Reserves	81.0	79.7	78.3	76.7	74.4	68.0	60.1	51.9	43.4	34.1	23.1
In percent of quota	62.9	68.3	72.6	75.6	78.9	69.5	62.4	54.5	46.2	36.3	24.3
Net use of Fund credit (in millions of SDRs)	6.5	14.0	11.0	7.7	8.7	-24.4	-18.3	-20.4	-21.7	-25.6	-31.0
Disbursements	17.0	34.0	34.0	34.0	36.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	10.5	20.0	23.0	26.3	27.3	24.4	18.3	20.4	21.7	25.6	31.0
Memorandum items:											
Exports of goods and services (in millions of US$)	805	857	902	954	1,007	1,074	1,151	1,230	1,315	1,405	1,495
Debt service (in millions of US$)	18.1	26.7	41.1	48.5	58.7	62.6	51.4	64.2	57.7	58.1	59.0
Nominal GDP (in millions of US$)	3,155	3,099	3,131	3,360	3,552	3,781	4,071	4,409	4,776	5,173	5,602
Gross International Reserves (in millions of US$)	279	308	333	354	381	368	373	378	382	382	377
Quota (millions of SDRs)	258.4	258.4	258.4	258.4	258.4	258.4	258.4	258.4	258.4	258.4	258.4

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

1/ Total debt external public debt service includes IMF repayments.

Annex I. Tax Revenue Measures

1. The Liberia Revenue Authority (LRA) is facing enormous pressure to increase domestic revenue mobilization in a challenging environment. The revenue envelope for FY2020 is estimated at 16.8 percent of GDP, of which the tax-to-GDP ratio is estimated at 12.5 percent, other revenue at 2.4 percent, and a significant reliance on external budget support estimated at 2 percent. Then, facing strong budgetary constraints and loopholes in the legal framework, the LRA must overcome its operational weakness to respond to high expectations.

2. The authorities have started working towards implementation of their Domestic Revenue Mobilization Strategy and remain committed to substantially raising revenue over the program period. While it emphasizes the need for overall diversification of the economy, expansion of tax bases, replacing the current Goods and Services Tax (GST)—a single stage turnover tax—with a modern Value Added Tax (VAT), simplification of the tax code, and improvements in tax administration, it does not focus on near-term, actionable tax measures. The LRA and Ministry of Finance and Development Planning (MFDP), in partnership with development partners (so far UNDP), have already started working on implementation of the DRM Strategy and fleshing it out with concrete tax proposals. Modernization of excise taxes—a switch from ad valorem to specific tax rates and use of excise duty stamps—have been already enacted and a few nonfuel commodities are subject to excise duty. The implementation is however delayed for example due to delays in the procurement of stamps. Several further measures have been considered: streamlining various tax concessions, improvements to property taxation (property valuation), higher taxation of telecommunication services, and a suite of measures geared towards improvement of tax enforcement. The potential yield, however, is unknown as only a limited costing and revenue impact analysis has been undertaken so far.

3. However, FAD has identified several challenges that jeopardize efforts to improve tax compliance. Undeveloped processes and a complex Information Technology (IT) environment—with manual capture of taxpayer data—have compromised the quality of data. Key data, such as taxes paid, returns filed, or taxpayer balance, are either unavailable or inconsistent. Prioritizing and focusing on streamlining core processes, cleansing data (tax register and taxpayer ledger) and implementing a new IT system is therefore critical.

4. Given the challenging environment at the LRA, the revenue measures during the first program year are realistic and in line with FY2019 revenue outturn. The focus at the inception of the program is primarily on putting a fiscal monitoring system in place while near-term domestic revenue measures are discussed and adopted. Staff has also discussed with the authorities the feasibility of potential future revenue measures. However, staff has tried to balance potential revenue measures with the need for parsimony in conditionality, taking into consideration the authorities' absorption capacity and current institutional challenges.

A. Revenue Administration Issues

5. In the medium term, the most important structural measures on revenue administration should include: (i) ensuring a proper mapping of tax payers, tax types, and tax accounts; (ii) procuring and using an Information Technology Tax System (ITAS); and (iii) monitoring and publicizing institutional performance based on Key Performance Indicators on a quarterly basis. In addition, the following short-term measures could also be helpful: (i) adopting procedures to enforce collection of tax arrears by large taxpayers; and (ii) design and implement regulations that require proper tax registration for obtaining licenses (business, mining, professional etc.).

6. In this regard, the top three priorities to rebuild revenue administration processes and systems are:

- Ensure there is established for each taxpayer only one tax account per tax type, as well as one tax return, per tax-type, per period, is filed.
  - ➢ 1st stage: define new processes and procedures with the participation of the internal units that are responsible for providing guarantees (such as the Enterprise Risk Management and Compliance Division, and the Legal and Board Affairs Department);
  - ➢ 2nd stage: implement the new procedures to include mechanisms to prevent the opening of multiple accounts per tax-type per taxpayer;
  - ➢ 3rd stage: cleanse the large taxpayers' accounts; and
  - ➢ 4th stage: cleanse the top half of medium taxpayers' accounts.
- Provide and use an Information Technology Tax System (ITAS) that is fit for purpose to support tax administration processes.
- Monitor and publicize institutional performance (through the established Key Performance Indicators) at least quarterly.

7. Some of the measures that would be explored as potential SBs throughout the program to strengthen revenue collection are:

- Guarantee that the LRA Board Charter is operational to include the appointment of all members, regular meetings as prescribed, and powers executed (review and approval of reports, accounts, plans, etc.)
- Adopt procedures to enforce collection of tax arrears in stages:
  - ➢ 1st stage, at least 10 percent of large taxpayers' debts; and
  - ➢ 2nd stage, at least 25 percent of large taxpayers' debts.

- Develop, issue, and enforce regulations that require proper tax registration in order to obtain licenses such as professional, business, mining, etc.

- Implement interface with commercial banks to enable automated processing of bank and mobile payments, and ensure the information provided by the banks contains all tax identifying information to be able to reconcile to the tax accounts to include: TIN, tax period and amount per tax-type payed.

- Enforce the legal requirement that all withholdees, including employees, must have a TIN.

- Establish a baseline against which the results of the compliance risk strategy implementation that focus on outcomes—and not on inputs—are measured and monitored on a regular basis (at least quarterly).

- Establish an operational valuation risk analysis function at Customs to identify declared values that require verification.

B. Tax Policy Issues

8. There is room to improve revenue collections through a better design of tax measures. Options for tax revenue mobilization in the short to medium term identified during a recent FAD TA mission—amounting to about 3 percent of GDP—are summarized in Table 1 of Annex I. Changes to direct taxes could yield up to 2.2 percent of GDP and in indirect taxes about 1.1 percent of GDP. Additional 0.7 to 1.2 percent of GDP could be mobilized through changes in natural resource taxation and eliminating certain investment incentives. In this regard, the following findings will be taken into consideration:

- Improving the progressivity and expanding the base of the Personal Income Tax (PIT) are the most viable and revenue-productive measures.

- There are also several excise tax measures that, in total, can be introduced to improve revenue by 0.5-1.5 percent of GDP, depending on the size of the tax changes.

- In addition, expanding the GST base to encompass a wider range of services would help pave the way for introducing the VAT in the medium term.

- It will be important to follow the ECOWAS Common External Tariff (CET) migration plan, which is about to enter the second year of its four-year path.

- Increasing revenue from the natural resource sectors is subject to considerable challenges. The large share of revenues generated under contractual arrangements, extensive investment incentive agreements and exemptions, and a high utilization of license fees and charges on inputs weakens the revenue potential of any changes to profit based taxes. Increasing revenue from artisanal mining, while possible, requires better control and enforcement.

- A successful bid for offshore petroleum exploration blocks could yield substantial short-to-medium-term revenues.

- Expiring revenue incentives present a good opportunity to increase revenue. Simply allowing existing investment incentives to expire at the end of their statutory five-year terms would yield 0.5 percent of GDP over the medium term.

Table 1. Summary of Major Tax Revenue Measures

Revenue measure	Estimated Revenue Impact (percent of GDP)*	Timeframe for Implementation	Measures under consideration
Direct Taxes			
Expand PIT to include all government wage components	0.2	ST	x
Adopt tax credit approach (instead of deduction approach) for PIT liability calculation	0.2	ST	
Eliminate basic exemption for in-kind benefits	0	ST	x
Improve PIT progressivity:			x
(1) Moderate increase	0.7 - 0.9	ST	
(2) +Substantive increase	1.6 - 1.8	ST/MT	
Review and improve BIT design (various elements)	+++	MT	
Require annual filing by individual businesses (sole traders)	+	ST	
Improved discovery and valuation of properties and better enforcement of property tax	+	ST/MT	x
Indirect taxes			
GST: Broaden base to include a wider range of services	0.02	ST	x
GST: Increase rate to 11 percent (on current base)	0.2	ST	x
Excise: New excise tax law on cigarette and alcohol	<0.1	ST	
Excise: Equalize tax rates for domestic and imported goods	0.3	ST	
Excise: Increase excise tax on wine	0.01	ST	
Excise: Introduce excise tax on fuel	0.3	ST	x
Excise: Expand base of excise to all imported vehicles	0.1	ST	x
Excise: Gradually increase excise (at least) in line with inflation	+	MT	
Telcom: Introduction of price floor	+	ST	
Telcom: Introduce regulatory fee/additional GST of 5 percent	0.1	ST	
Customs: Remove waivers for members of the legislature	0.02	ST	x
Natural Resource Taxation			
Free equity conversion to additional royalty	0.2**	MT	
Free equity conversion to five-year fixed payment	0.7**	MT	
Petroleum licensing round (concession fees)	++	ST/MT	
Raise income tax rate on forestry to 30 percent	0.0	ST	
Other (General)			
Allow investment incentives to expire	0.5**	ST/MT	x
Disallow election in currency in which taxes are paid	+	ST	
Efficiency gains from improved enforcement	+++	MT	x

*Annual impact: FY18/19 terms

**Simple average over five years

Annex II. Flow Chart of Budget Appropriation Allotments, Commitments, and Cash Release

1. **With downside risk to the revenue projections, a robust fiscal cash management system is critical to prevent the emergence of domestic arrears and central bank financing**. Addressing fiscal governance issues by improving cash management was set as prior actions (PAs) for program approval (Table 1 and Table 2). Cash release should be guided by the principle that release of cash allotments and financial budgets must be aligned with projected cash availability to ensure that payment vouchers can be paid in full and on time. The Liquidity Management Committee (LMC) should review and update cash plans on monthly basis, and more frequently if needed. Based on the updated plan, it should provide recommendations to the Treasury Management Committee (TMC), which will set a formal overall limit for quarterly allotments for planning purposes and recommend monthly financial budgets. The latter provides spending entities with the permission to commit funds, issue purchase orders, and make payments for goods and services. Moreover, to support internal control processes and segregation of duties, the Budget Department is responsible for making allotments distributing resources to the line ministries, whereas the Fiscal Affairs Department is responsible for issuing financial budgets through the Integrated Financial Management System (IFMIS) in line with up to date liquidity information and disbursement requirements.

Table 1. Liberia: Cash Management and Budget Execution Workflow, Overview

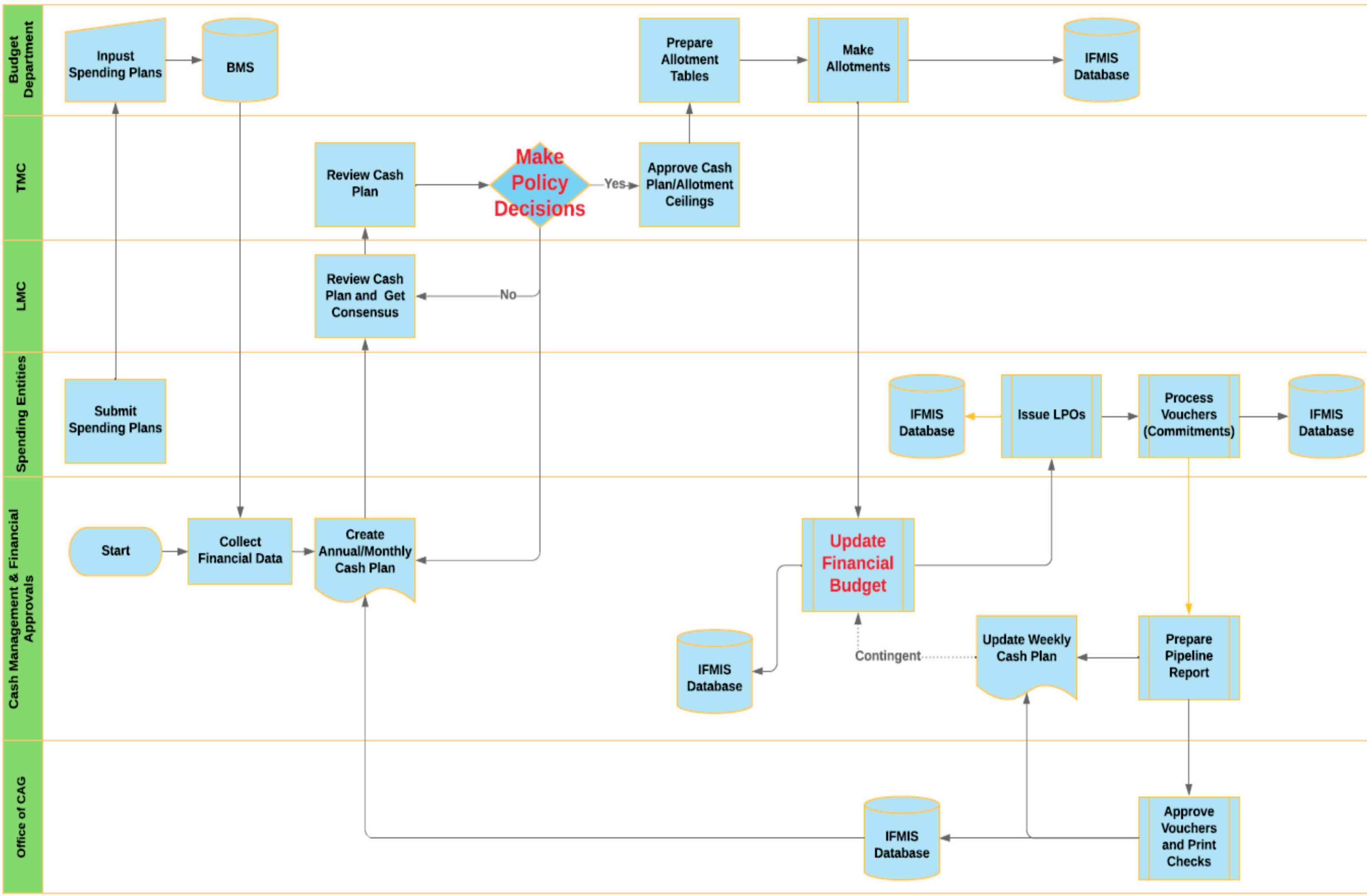
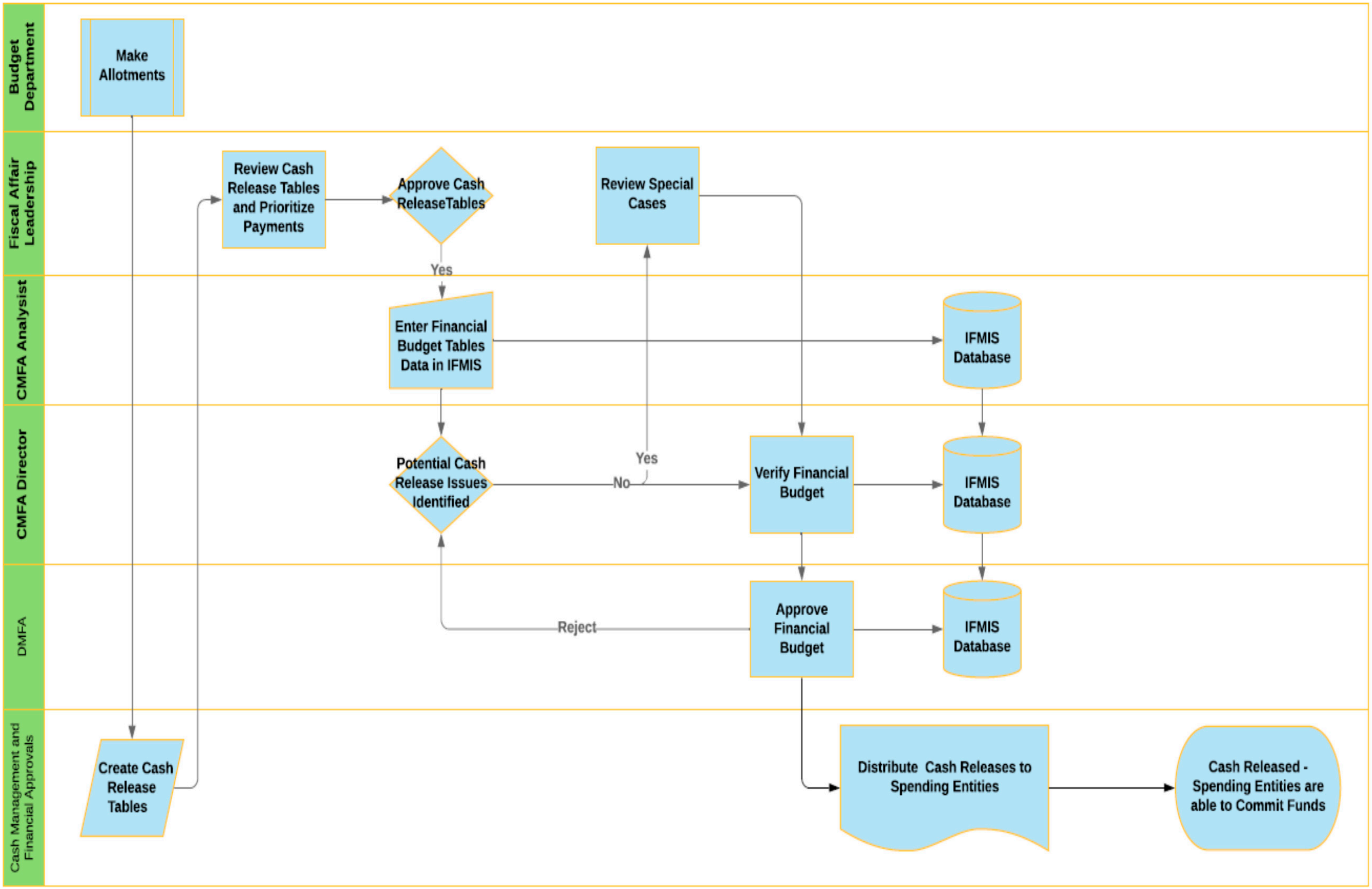


Table 2. Liberia: Cash Management and Budget Execution Workflow, Financial Budget



Annex III. Capacity Development Strategy Note

A. Capacity Development (CD) Strategy

1. **The CD strategy for Liberia should focus on supporting the objectives of the authorities' PAPD and the proposed ECF-supported program**. In particular, the program addresses fiscal and central bank governance issues by introducing a robust cash management and control system at the MFDP and at the CBL. TA and capacity building during the preparatory stage were tailored to support these areas. These are expected to remain a focus of capacity building for the duration of the program. Moreover, TA in the medium term will aim to build capacity to implement program reforms in key fiscal, monetary policy, and financial sector areas, which include public financial management (PFM), domestic revenue mobilization, monetary policy operations, foreign exchange market development, bank supervision, and statistics.

2. **This strategy implies no significant change relative to the 2016 CD Strategy Note, though there are a few changes**. For instance, PFM and domestic revenue mobilization continue to be the top two priorities in the CD strategy. But in statistics, the work on the GDP rebasing continues to be important, but the priority needs to be given to improving the quality of Government Financial Statistics (GFS) and Monetary and Financial Statistics (MFS). Similarly, financial crisis management continues to be important work of the CBL, but with the introduction of the new monetary policy framework, the capacity building in the area of monetary policy operations needs to take priority.

B. Key Overall CD Priorities Going Forward

Priorities	Objectives
Budget Execution and Control	Advance Treasury Single Account (TSA) implementation
Tax Administration Core Functions	Strengthen the system for tax filing
Monetary policy implementation and operations	Build capacity for effective monitoring of systemic liquidity to guide monetary policy outcomes
Financial Institutions	Improve the quality of Monetary and Financial Statistics

C. Main Risks and Mitigation

3. **Limited absorptive and implementation capacity remains the key risk to the CD activities**. The level of CD provided to Liberia may be appropriate on the needs basis, but not necessarily on the basis of absorptive capacity. Liberia receives more than 5 full-time equivalents (FTE, person years) of TA as opposed to the Sub-Saharan Africa region average of about 2 FTE. Moreover, in the year through April 2019, there were close to 50 TA missions delivered in Liberia. Traction on CD, however, has been low partly because all the main recipients of technical assistance, namely the CBL, LRA, MFDP, and the Liberia Institution of Statistics and Geo-Information Services

(LISGIS) face low absorption capacity of TA recommendations, and thus the implementation of TA recommendations remains limited. In addition, weakening governance and change of management at all the recipient institutions in 2018 contributed to loss of momentum to implement reforms.

4. Mitigation measures have been to enhance information sharing, follow-ups, and coordination across experts in the field, HQ back-stoppers, and the authorities. The country team is in close communication with all parties involved not only during the surveillance or program discussions, but throughout the year. Moreover, flexibility in the modality of TA activities (e.g., long- versus short-term experts, training versus TA) has helped improve absorptive and implementation capacity.

D. Authorities' Views

5. The Liberian authorities view the TA priorities outlined above as not only critical to building capacity for program implementation, but also supportive of their own reforms under the PAPD. They prefer future TA to be more hands-on and to incorporate more on-site training to boost absorptive capacity.

Annex IV. External Sector Assessment

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

A. Current Account and Real Exchange Rate

Background

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

2. Little progress has been made on improving competitiveness and the business environment. For example, in the 2018 Global Competitiveness Index, compiled by the World Economic Forum, Liberia ranked 132nd out of 140 economies in terms of overall competitiveness, with ICT adoption, market size, and innovation capability identified as particularly severe constraints.[1] Consistent with this, Liberia ranked 174th out of 190 countries in the 2019 World Bank Ease of Doing Business survey. Indicators within the survey highlight how businesses face difficulty in registering property, dealing with construction permits, and getting electricity.

3. The real effective exchange rate has continued to depreciate. The nominal effective exchange rate depreciated by 22.9 percent in 2018, following a 16.9 percent depreciation in 2017. This depreciation was coupled with high inflation, and therefore the real depreciation has been more modest (7.2 percent depreciation in 2018, following an 8.9 percent depreciation in 2017). These trends have continued so far in 2019: the nominal effective exchange rate has depreciated by a further 16.5 percent, while the real effective exchange rate has depreciated by 5.5 percent (Figure 1).

Assessment

4. The EBA Lite current account (CA) model suggests that the external sector position is substantially weaker than that consistent with medium term fundamentals and desirable policy settings (Table 1). Based on the CA model, the cyclically adjusted CA deficit of -23.4 percent of GDP in 2018 was weaker than the multilaterally consistent cyclically adjusted

[1] Liberia was not covered in the 2019 Global Competitiveness Index.

CA norm by 18.4 percent of GDP. Only a small fraction of this gap (0.4 percentage points) can be explained by policy gaps.[2] Given the current account is weaker than the norm, import and export elasticities suggest that the real effective exchange rate (REER) is overvalued by 72 percent.

5. **The EBA-Lite real effective exchange rate model (REER) for Liberia continues to provide conflicting results to the CA model**. The EBA-lite REER model, in contrast to the CA model, suggests that the real effective exchange rate is undervalued by 26.2 percent. The model suggests that around 11 percentage points of this can be accounted for by 'policy gaps', with a very low real interest rate identified as the predominant contributor to the gap.

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

B. Reserves

Background

7. **Gross international reserves have declined further**. Reserves are estimated to have fallen to US$313 million at end-2018, equal to 2.4 months of imports. The decline is the result of FX interventions, the drawdown of government deposits, financing of CBL operational losses, and central bank credit to the government. So far in 2019, reserves have declined further to US$278 million (2.2 months of imports) (Figure 1).

Assessment

8. **Gross international reserves are judged to be below reserve adequacy levels**. At the end of 2018, Liberia's gross international reserves were equal to 2.4 months of imports. The reserve adequacy model for credit constrained economies suggests that the level of foreign reserves considered adequate to withstand external shocks is around 3.3 months of imports and therefore the current level of reserves is judged to be below the reserve adequacy level.

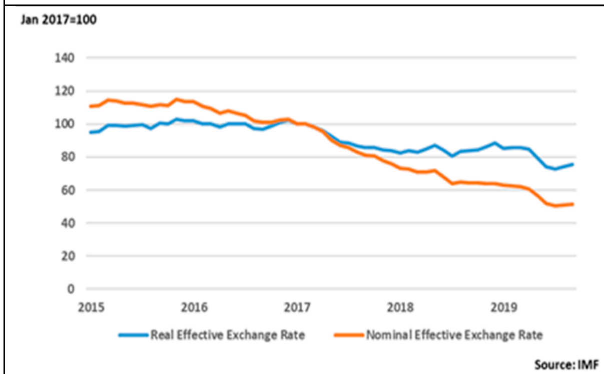
[2]Relative to the EBA Lite CA model results presented in the 2019 Article IV Consultation, the fraction explained by 'policy gaps' has been revised downwards, largely due to a downward revision to public health expenditure.

Policy Implications

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

Figure 1. Liberia: External Sector Developments

Exchange Rate Developments



Foreign Reserves (Months of Imports, year-end unless stated)

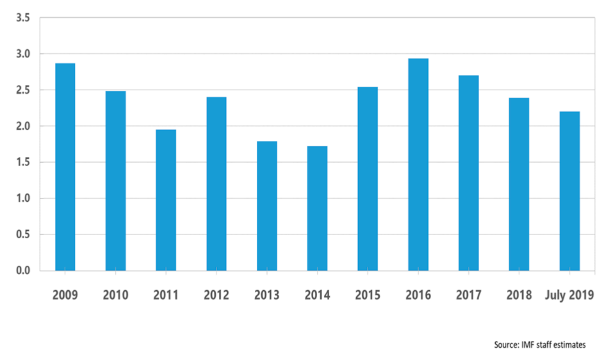


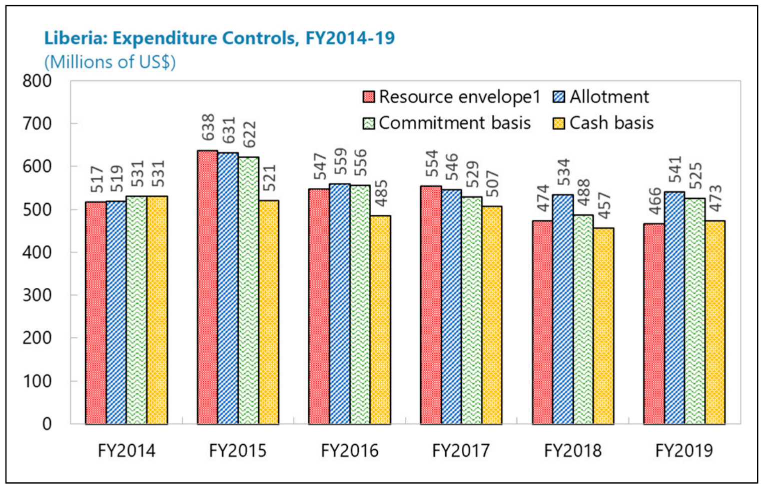
Table 1. Liberia: EBA-Lite Model Summary

EBA-Lite CA Model Summary	
CA-Actual	-23.4%
Cyclical Contributions (from model)	-0.7%
Cyclically adjusted CA	-22.7%
CA-Norm	-5.6%
Cyclically adjusted CA Norm	-4.9%
Multilaterally Consistent Cyclically adjusted CA Norm	-4.3%
CA-Gap	-18.4%
of/which Policy gap	-0.4%
Elasticity	-0.26
REER Gap	72%
EBA-Lite REER Model Summary	
REER Gap	-26.2%
of/which Policy gap	-10.6%

Annex V. Public Sector Arrears: Stocktaking and Liquidation Plan

A. Background

1. **Expenditure controls in Liberia have deteriorated in recent years, leading to a rapid increase in arrears**. Public sector budget and expenditure patterns have not adjusted to the decline in the resources envelope that came with the fall in budget support loans and grants and domestic revenue underperformance. On aggregate, cumulative expenditure throughout the fiscal year on a cash basis remains in line with revenue collected, but the gap between commitment[1] and cash expenditure has widened from $21 million in FY2017 to $52 million in FY2019. The difference between expenditures committed and payments made leads to an overestimation of the volume of arrears, but can be used as a proxy for the *potential maximum volume* of arrears excluding unreconciled transactions and discrepancies.[2] Every year there is a sharp increase in commitment expenditure in June to closely match the available unused allotment and to allow for unfulfilled commitments to be paid in subsequent months.



2. **This has threatened fiscal sustainability**. The mismatch between resources and expenditure has led to central bank financing, disruptive budget execution, and to the use of revenue from the following fiscal year to clear outstanding payments. Moreover, cumulative expenditure by sector at different stages of budget execution show that the quality of expenditure controls varies by sector, although it is sometimes aided by reallocation of resources across sectors. The most vulnerable to changes in budget allocation are those related to social spending, production, and infrastructure.

[1]Commitment is recorded at the stage of issue of a duly approved payment order to the supplier/vendor while a future obligation to pay is subject to fulfilment of a contract or service delivery.

[2]Not all committed expenditures lead to an actual delivery of goods and services, and some expenditure can be "uncommitted". But, presumably, the larger the gap, the larger the amount of arrears. The estimate differs from macroeconomic framework Tables 3a-3d because it excludes discrepancies and unreconciled transactions identified by the government.

B. Strategy

3. Restoring Liberia's fiscal sustainability requires stopping the accumulation (flow) of new arrears, measuring the outstanding stock of arrears, and setting up a plan to liquidate them. Arrears can arise on any expenditure item but are most commonly found on payments due to the private sector for the supply of goods and services, while the government has prioritized public sector wages and debt service payments. An arrear would exist when the bills have been verified as successfully delivered but not paid only after what is considered the "acceptable grace period" which in Liberia is defined as three months after the end of the fiscal year (Box 1).

I. ***Stopping the accumulation of new arrears:*** The stock of arrears is rising due a combination of factors, primarily: (i) the budget provision is unrealistic and line ministries commit expenditure up to total allotment; (ii) there is no in-year guidance on when expenditures can be committed in line with a realistic cash plan; and (iii) some commitments are not recorded in a timely manner and outside of budget ceilings.

Monitoring and controlling the various stages of the expenditure management procedure through the weekly fiscal and cash management flash reports is important to ensure a smooth budget execution. Monitoring expenditure at the commitment stage provides an estimate of potential liabilities and increases control of expenditure as there is an administrative control via the line ministry or spending agency, and financial control by the ministry of finance before the liability is incurred. Monitoring expenditure at the payment stage allows supervision of the flow of purchase orders issued versus payment encashed. Some of the typical problems identified at the execution stage include: (i) deficiencies in the use and setup of the Integrated Financial Management System (IFMIS); (ii) the multiplication of exceptional procedures that bypass expenditure control arrangements; (iii) the difficulty in reconciling bank statements with budget accounts and thus in obtaining reliable and timely data on cash expenditures; (iv) the accumulation of accounts payable that can eventually become arrears; and (v) the lack of fund consolidation. Flash reports aim to strengthen expenditure controls by providing critical monitoring information in real time. However, these reports provide only an interim solution and are only successful in strengthening expenditure controls if used promptly to inform expenditure at all stages of the budget execution process. **Key actions**:

1. *MFDP to continue weekly submission to the IMF of fiscal and cash management flash reports; (started in July, 2019)*

2. *Resume liquidity management committee meeting, update cash plans regularly, align allotments with available cash; (started in August, 2019)*

3. *Issue Ministerial or Executive Orders announcing only Purchase Orders printed directly from IFMIS will be accepted effective immediately. All autonomous agencies should*

use the IFMIS to produce their Purchase Orders, and the MFDP should instruct all Ministries and Agencies that only IFMIS-generated purchase orders for goods and services will be honored. This should be accompanied with an awareness campaign and all contractors, suppliers and vendors should be informed in advance of the change. (November, 2019)

II. ***Measuring the size of arrears:*** Besides taking measures to stop the accumulation (flow) of new arrears, those responsible for the budget should be familiar with the size of, and the strategy for resolving, any existing stock of arrears. However, this stock can be very difficult to estimate, and only an audit of all the unpaid bills will give a comprehensive view of the arrears. **Key actions**:

1. *Prepare granular information by spending agency and detailed economic classification on cash expenses and commitment for FY2019; (received in November, 2019)*

2. *Establish granular information on invoices outstanding. To the extent possible, it is important to differentiate between payment delays due to: (i) the supplier did not submit the bill on time; (ii) the supplier has been requested by the MAC to delay submission of the bill and been forced to become a creditor; (iii) bills that have been "put in the drawer" because of cash constraints; (iv) as in 3, but a payment voucher completed for the bill is held back by the ordering line ministry, spending agency, or the check is held by the Comptroller and Accountant General (CAG); and (v) as in 4, but the payment voucher is passed to the accounts section for eventual processing when the cash is available. (Before December, 2019)*

3. *Establish the size and composition of the outstanding arrears. This should be aided by an audit conducted by the General Auditing Commission or an independent audit firm. (Audit complete by end-March, 2020)*

III. ***Liquidating the stock of arrears:*** Once the stock of arrears is known and verified, it is important to approve a credible repayment plan and prevent the emergence of new arrears. A number of options are available, and issues may arise during this process:

i. *If provision is made for the current's fiscal year's expenditure,* it will lead to reductions of provisions for other program and policies. When doing this it is important to avoid new arrears, and some spending agencies may choose not to pay past liabilities and incur new commitments instead.

ii. *If provision is made for repayment of arrears from contingent funds* this may ensure that arrears are liquidated. However, this may generate a moral hazard problem, as line ministries may conclude that they will also be bailed out in the future.

iii. *If the repayment is made through securitization there is a range of options*, including promissory notes discountable by commercial banks, the issue of treasury bills, or treasury bonds. This approach has the advantage of not disrupting the budget provision, but it adds to government debt and interest bill; and it raises moral hazard issues. Moreover, in the current context in Liberia, there is the risk that the bills holders will immediately go to the banks to discount their securities, even at a highly punitive rates, and if the banks do not have the cash available it will have an adverse monetary impact. Also, promissory notes present a few additional issues, including that they: (i) can be used to prioritize (by varying the terms of the promissory notes) and can only be cashed at a discount; (ii) their issuance can be nontransparent, open to favoritism and corruption. In no cases should the arrears be directly offset against tax liabilities as this would only undermine tax compliance and encourage future arrears.

While option (ii) and/or (iii) may be preferred, it should always be accompanied by a genuine strengthening of expenditure controls to avoid future arrears. Its acceptability will also depend on many other wider factors: the case for prompt payment versus deferral; the interaction with any arrears on tax payments; the mode of financing; and the pursuit of monetary policy objectives. **Key actions**:

1. *Aging analysis of the arrears: this would help to indicate the extent to which they resulted from systemic issues or processing inefficiencies (December, 2019 – aligned with II 2 above)*

2. *Prioritize: this should be a transparent process and should be communicated to all stakeholders. Increased transparency setting out the stock of payment arrears, the criteria for prioritizing settlement, the planned timeframe, the verification and settlement processes and methods, and the intended preventative measures would provide suppliers, employees, lenders and donors with the confidence that the public finances are being well-managed. It would also provide for clearer monitoring and ensure consistency against payment provisions approved in budget. (by May, 2020, assuming the stock of arrears has been determined by then)*

3. *Decide on different modalities of clearing arrears: to avoid disruption to priority government services, clearing the volume of accumulated arrears would require a multi-year approach and a variety of instruments. Measures could include (i) budget provisions for paying arrears; (ii) securitization; and (iii) deferring the commencement of new capital investments until ongoing projects are completed and contract payments honored (by May 2020, assuming the total stock and amounts in priority categories are known).*

Box 1. Definition and Types of Arrears

Government expenditure arrears are financial obligations that have been incurred by any level of the public sector for which payments have not been made by the due date. Payments may be overdue based on a particular legal obligation, a specific contractual commitment, or a continuing service arrangement. The value of expenditure arrears constitutes the amount of the original overdue payment, as well as any interest or financial penalties that the government might accrue (and not pay) as a result. The precise point at which a government liability falls into arrears typically varies according to the type of expenditure. In particular:

- ***Compensation of employees or transfers to households***: an arrear is created as soon as the legally or contractually defined date for payment of the obligation has passed.
- ***Payment to commercial contractors for provision of goods, services, or fixed assets***: expenditure is considered to be in arrears when: (1) the goods have been delivered, service rendered, or asset created; (2) an invoice has been received; (3) the good, service, or asset has been verified as successfully delivered; and (4) the payment due date on the invoice or the number of days after which an invoice is to be paid in accordance with a law, regulation, payment policy, or local practice has passed.
- **Consumption of public utilities**: an expenditure is considered in arrears once the due date for regular payment has passed.
- ***Mandatory transfers to statutory funds or subnational governments***: an expenditure falls into arrears once the due date for payment specified in the law, regulation, or calendar of transfers has passed.
- ***Tax refunds***: the obligation becomes an arrear once the refund is due and the deadline for payment has passed.
- ***Payment of interest or principal on government debt or other liabilities***: an expenditure falls into arrears as soon as the scheduled date for payment has passed. Arrears on amortization of debt are not defined as expenditure arrears for financial reporting purposes, as they constitute financing transactions under international accounting and statistical standards. However, they do represent an obligation to pay and should be disclosed and included in any arrear's clearance strategy.

Annex VI. Central Bank Policy Solvency Analysis, 2019–25[1]

Policy solvency ensures that the central bank has sufficient and appropriate resources to perform its legal monetary policy mandate. It includes having financial tools on its balance sheet to enable effective monetary policy operations, and the balance sheet strength to undertake its operational functions without recourse to the government. The latter requires that average realized revenues exceeds the realized operating costs. This assessment of policy solvency uses a simplifying approach to examine the Central Bank of Liberia's (CBL) net income over the medium term up to 2024, which comprises interest income from its largest asset – GOL claims, less its expenses for monetary operations using market-based instruments[2] and operational cost. All FX gains due to exchange rate movements are treated as unrealized gains and therefore are not included in income.

A. Baseline Scenario

1. Assumptions: Nominal interest rates are assumed to equal nominal GDP growth, hence both largely depend on inflation dynamics (Table 1). The required reserve ratio on local currency is set at 25 percent and 10 percent on USD deposits. The baseline scenario also assumes that the government will service all its obligations to the CBL as scheduled, thus, reducing the CBL's credit to the government sharply over the medium term while allowing the CBL to accumulate reserves. Furthermore, this scenario assumes that 90 percent of the forecasted stock of monetary operations liabilities are held on overnight balances (interest is lower than on longer tenor instruments) and 10 percent in longer term instruments. The operational cost of the CBL has been assumed to be in line with the revised budget for 2019–20[3] developed to minimize cost and drain on reserves.

2. The CBL is not policy solvent under the baseline scenario-income is not high enough to cover the CBL's high operational costs and the cost of mopping up excess liquidity. The CBL incurs a cumulative net deficit of LD51 billion by 2024 due to declining income from the GOL as the GOL amortizes the principal of the legacy debt, the CBL's main source of interest income, and outstanding claims without agreements to define amortization and interest payments, which impairs CBL's income-earning capacity. The CBL will only manage to cover between 10 and 20 percent of its total cost (operating cost and cost of monetary operations) between 2020 and 2024. Despite requiring the GOL to set aside US$245.7 million in its already tight budget to service

[1]This analysis refers to the baseline and the alternative scenarios, which closely correspond to the reform scenario in the 2019 Article IV consultation report and the baseline in this staff report, respectively. Because of the timing of the analysis conducted, some assumptions do deviate from those assumed in the corresponding staff reports.

[2]Reserve requirements are the main monetary policy instrument and these balances are not remunerated. Under the proposed reforms, in addition to the reserve requirements, the CBL has commenced issuing market-based CBL bills for implementing monetary policy. The assumptions for the assessment do not include any changes in the reserve requirement ratio and that remuneration remains at zero.

[3]As approved by the Board of the CBL on July 24, 2019.

debt to the CBL between FY2019–24, the CBL's net income position remains weak. It needs to adjust its operational costs down further to improve its policy solvency. However, frontloaded repayment of bridge loans, and repayment of ECF and RCF loans on schedule help the CBL to rebuild gross reserves from about US$304 million at end-2019 (30 percent of balance sheet) to around US$473 million (47 percent of the balance sheet) at end 2024 (Figure 1). Although the build-up of reserves increases monetary policy operations 2020–23, this increase is muted since the build-up is mainly driven by GOL repayment of debt to the CBL.

B. Alternative Scenario

3. **Assumptions**: This scenario is developed to provide an alternative scenario to allow the CBL to conduct monetary operations under the new monetary framework, while regaining financial efficiency. Acknowledging fiscal constraints, the assessment seeks to define a realistic debt service schedule with the GOL, regularizing about US$212.4 million credit claims from bridge loans, new borrowing to repay the ECF and RCF budget support (US$107.8 million), and balances of the suspense account (US$76.6 million) into a new instrument that attracts market-based interest rate of 6 percent (Table 2). The rate is calculated by taking Libor plus a risk premium of 3 percentages points. While amortization of principal under the new instrument will begin in 2029, the GOL will be required to service all the interest due on this bond between 2020 and 2028. For the legacy debt of US$250 million, the GOL continues to pay interest of 2 percent and amortizes half of the scheduled amounts until 2024 when it should have adequate fiscal space to pay its full annual obligations from 2024. Consequently, the maturity period is extended from 2038 to 2040, albeit with higher amortization towards the end.

4. **The CBL's policy solvency in the alternative scenario improves relative to the baseline but not by enough to characterize it as policy solvent**. High outstanding debt to the CBL, standing at USD456 million by 2024 compared to USD287 million under the baseline, coupled with higher interest from the new instrument cut the CBL's cumulative losses by a half to LD35 billion (Figure 1). Although income is better and the lower monetary operations liabilities drive down costs of monetary policy operations relative to the baseline, high operational costs remain a drag on the CBL's ability to attain policy solvency. Moreover, the Income-Cost ratio – a measure to assess whether the alternative income stream will sustain the cost of monetary operations under the new framework-in the alternative scenario improves significantly to cover close to 76 percent of the total cost of the CBL by 2024 but falls shy of the 100 percent target (Figure 1). In this scenario, the CBL is in a stronger financial position to implement the new monetary policy relative to the baseline but the negative net income still signifies the need for adjustment in its operational costs (Figure 2). On the other hand, foreign reserves are lower than the baseline scenario at US$403 million by 2024, as the postponement of amortization of principal on the bundled obligations constrain the build-up in foreign reserves.

5. **Fiscal Impact of the alternative scenario**: The alternative scenario improves the fiscal position in the short-to-medium term relative to the baseline scenario, but the situation remains tight. The debt service burden is decreased to more manageable levels for the GOL, with debt service to the CBL averaging US$23 million between 2020 and 2024—compared to average of

US$37.2 million in debt service of debt with existing MOUs under the baseline—of which US$15.9 per year, on average, is allocated to interest payment (Table 2). The alternative scenario regularizes GOL's debt with the CBL for which an MOU has not been signed yet. It provides a credible and predictable repayment path that the GOL can accommodate into its budget, while also guaranteeing that there are funds available to repay the ECF and RCF budget support. This scenario strikes a balance between the GOL's responsibility to service its debt and the need to provide adequate levels of goods and services and capital expenditure. Still, total debt service (domestic and external) during FY2020-24 remains at an average of 13 percent of revenue, and the GOL should continue to work to increase revenue mobilization, improve spending efficiency, and prioritize concessional financing in its new borrowing.

6. Conclusion: Even with extremely generous assumptions on GOL repayment to the CBL—the CBL is not policy solvent by 2024.[4] The alternative scenario improves the CBL's net income but does not achieve policy solvency, and this improvement comes at the expense of reserves. Although the coverage of income to operational cost increases under the proposal, it remains below 1.0. Given that in both scenarios, income covers monetary policy sterilization costs, the bottom line about policy solvency (ability to operate without recourse to GOL) for the CBL rests mainly on reducing the operational expenses which on average account for close to 86 percent of the total expenses.

[4]The CBL achieves policy solvency (ability to operate without recourse to the government) by committing to reduce its operational expenses during the program period which was agreed after the analysis was conducted.

Table 1. CBL's Policy Solvency Analysis, Key Assumptions; 2019–24

	2019	2020	2021	2022	2023	2024
Real DGP (percent change)	-1.4	1.4	3.4	4.2	4.9	5.4
Nominal GDP (percent change)	25.8	16.6	15.8	14.6	12.2	12.8
Inflation (y-o-y percent change, annual average)	27.5	15.0	12.0	10.0	7.0	7.0
Nominal interest rate (percent)	26.40	16.61	15.62	14.45	12.15	12.66
Reserve requirement on USD (percent)	10	10	10	10	10	10

CBL's Policy Solvency Assessment : Baseline

	2019	2020	2021	2022	2023	2024
Balance Sheet Indicators (in % of balance sheet size)						
Gross FX assets	30	33	37	41	45	47
Credit to GOL	56	52	46	40	33	30
Interest-bearing Monetary Liabilities[1]	2	3	2	2	1	0
GFA (weeks of Imports)	2.2	2.5	2.8	3.0	3.1	3.0
Operating Expenses and Monetary Policy Interest Cost (in USD million)						
Operating Expenses	35.65	31.56	30.01	25.02	23.14	22.82
Total Expenses (Op. Exp + MP Cost)	39.36	35.95	33.74	27.32	24.29	23.44
Net Income	(35.56)	(32.14)	(30.15)	(23.90)	(19.94)	(19.28)

CBL's Policy Solvency Assessment: Proposal for Medium-term Adjustment

	2019	2020	2021	2022	2023	2024
Balance Sheet Indicators (in % of balance sheet size)						
Gross FX assets	27	30	32	34	37	36
Credit to GOL	70	57	53	49	46	44
Interest-bearing Monetary Liabilities[1]	5	5	4	3	3	2
GFA (weeks of Imports)	2.1	2.3	2.5	2.6	2.7	2.5
Operating Expenses and Monetary Policy Interest Cost (in USD million)						
Operating Expenses	35.65	31.56	30.01	25.02	23.14	22.82
Total Expenses (Op. Exp + MP Cost)	42.90	35.07	32.91	26.83	23.84	22.89
Net Income	(39.09)	(24.99)	(22.24)	(15.25)	(10.03)	(7.98)

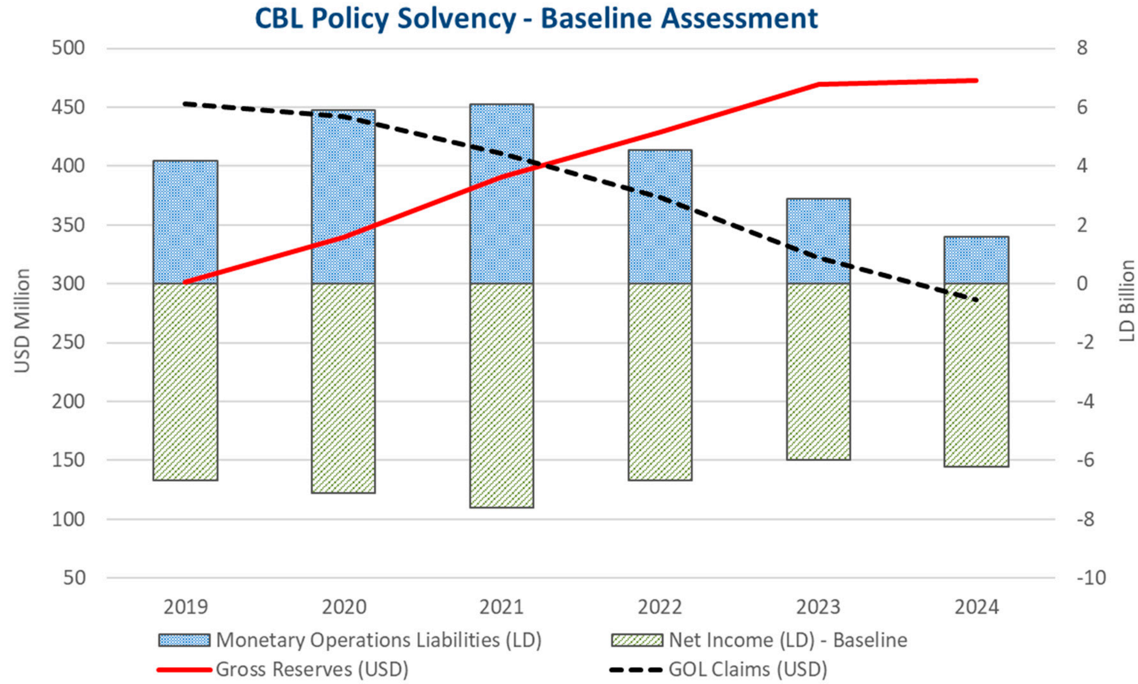
[1] CBL recently changed its monetary operational framework to include a standing deposit facility (SDF) and CBL bills. The assessment assumes that 90% of the monetary liabilities are placed on the overnight SDF that pays the policy rate.

Table 2. Repayment of GOL Debt to CBL

	Debt stock	Interest rate	2019	2020	2021	2022	2023	2024	2025
BASELINE									
TOTAL OUTSTANDING	453.3		446.9	435.9	404.0	367.1	315.3	280.4	263.0
Debt service (based on BTO report)			10.3	14.7	35.5	40.3	56.2	39.0	21.4
Interest			3.8	3.8	3.6	3.4	4.4	4.2	4.0
Principal	354.5		6.5	10.9	31.9	36.9	51.9	34.9	17.4
CBL legacy debt	238.0	2%	6.5	6.5	12.9	12.9	12.9	12.9	12.9
ECF budget support	3.6		-	-	-	-	-	-	-
RCF budget support	44.9		-	4.5	9.0	9.0	9.0	9.0	4.5
T-bills	0.0		-	-	-	-	-	-	-
Others	68.0		-	-	10.0	15.0	30.0	13.0	-
PROPOSED									
New borrowing (ECF and RCF repayment)	107.8		-	13.5	18.0	21.6	21.6	21.6	8.1
Debt outstanding	488.3		481.8	472.5	466.0	459.6	453.2	446.8	434.0
Debt service			10.26	23.21	20.83	21.74	23.96	25.06	32.55
Interest			3.8	13.8	14.4	15.3	17.5	18.6	19.8
CBL legacy debt		2%	3.8	3.8	3.6	3.4	4.4	4.2	4.0
Bundle		6%	-	10.0	10.8	11.9	13.2	14.5	15.8
Principal			6.5	9.4	6.4	6.4	6.4	6.4	12.8
CBL legacy debt	244.5		6.5	6.5	6.4	6.4	6.4	6.4	12.8
ECF budget support	0.0		-	-	-	-	-	-	-
RCF budget support	0.0		-	-	-	-	-	-	-
T-bills	2.9		-	2.9	-	-	-	-	-
Bundle	175.3		-	-	-	-	-	-	-
CBL bridge loan	*28.0*		-	-	-	-	-	-	-
Claims without MOUs	*98.8*		-	-	-	-	-	-	-
New borrowing (ECF and RCF repayment)	*107.8*		-	-	-	-	-	-	-

Figure 1. Liberia CBL's Solvency Analysis

The baseline scenario is desirable but is not feasible for the fiscal.



Net Income of the CBL is better under the alternative scenario but the CBL continues to lose its international reserves.

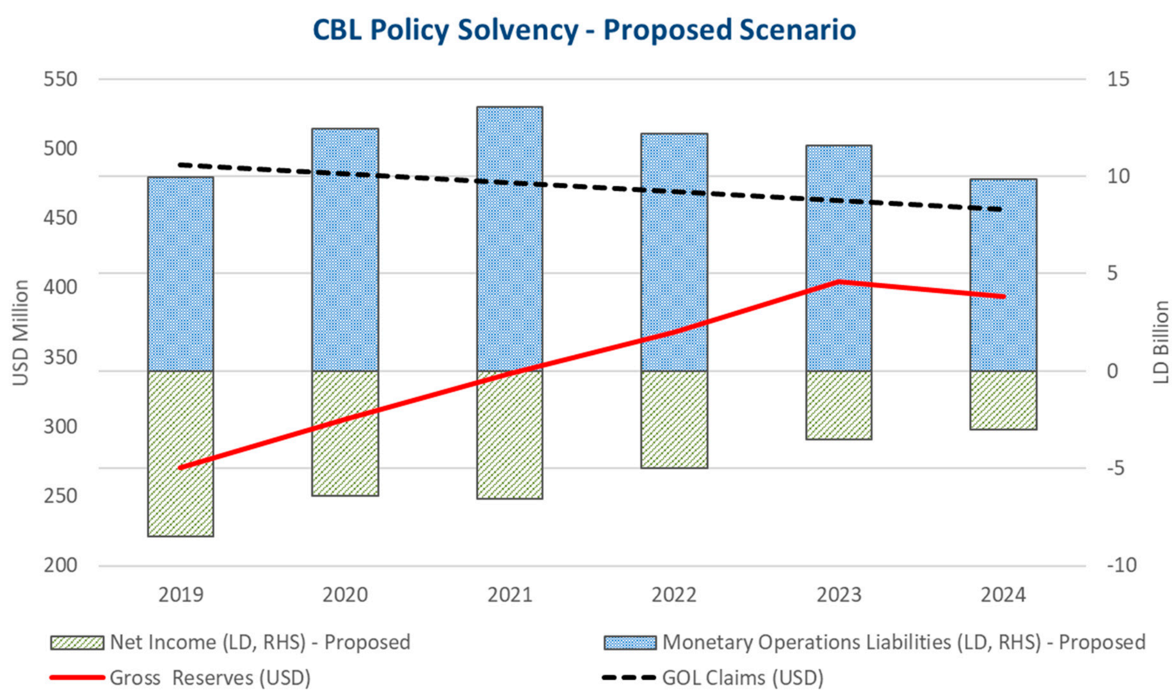
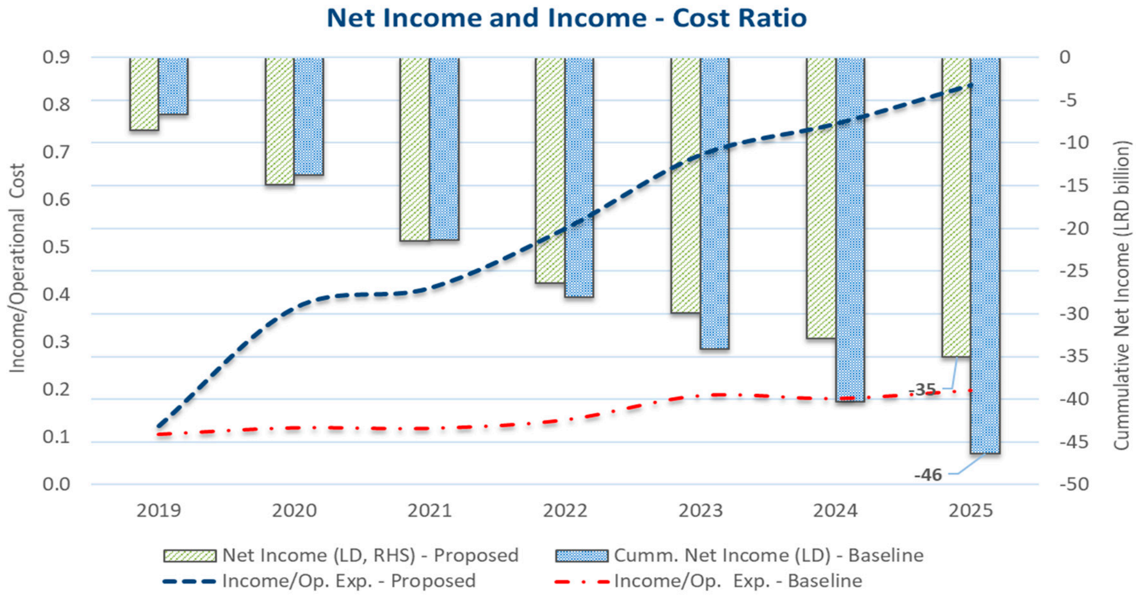


Figure 2. Liberia: Cumulative Net Income of the CBL (Baseline vs Alternative)

(LD million)



The income excludes all FX gains – these are treated as unrealized gains – the income sufficiently covers the cost for sterilization, although net income (which would include operational expenses) improves, but remains negative.

Appendix I. Letter of Intent

Monrovia, November 25, 2019

Madam Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C., USA

Dear Madam Managing Director:

Since the successful conclusion of the second Extended Credit Facility (ECF)-supported program in November 2017, the economic situation facing Liberia has proved challenging. Growth has slowed, our reserve stocks have come under significant pressure, and macroeconomic imbalances have increased. Following a series of external shocks—including a fall in key commodity prices, the lingering effects of Ebola, and the rapid depreciation of the Liberian dollar that followed—inflation has accelerated, and now stands at about 30 percent. The challenging economic conditions and erosion of purchasing power are being felt particularly by the most vulnerable members of our society, many of whom are experiencing significant hardship. Reversing this situation is our paramount concern, as protection and improvement of the living standards of the poorest Liberians is the central objective of our development plan, the Pro-Poor Agenda for Prosperity and Development (PAPD).

Against this background, and Liberia's protracted balance of payments problems, we have developed a comprehensive, medium-term program of economic stabilization and recovery. To help achieve the objectives of this program, we are requesting Fund assistance through a four-year arrangement, in an amount equivalent to SDR 155 million (60 percent of quota), under the Extended Credit Facility (ECF). This arrangement will be used to anchor and strengthen the credibility of our policies, act as a catalyst for financial support from our development partners, and improve private sector confidence in the future of our economy. The half-yearly reviews associated with the arrangement will send a clear signal to all Liberian stakeholders regarding the quality of the macroeconomic and financial policies being implemented by the government.

The attached Memorandum of Economic and Financial Policies (MEFP) describes recent developments in the Liberian economy and sets out in detail the economic and financial policies that we intend to implement over the next four years to regain macroeconomic stability and foster inclusive growth and economic recovery. While our focus over the next twelve months will, of necessity, be on short-term macroeconomic stability, we also intend to implement simultaneous reforms needed to improve the business climate, strengthen financial sector stability, promote debt sustainability, raise revenue, and improve public financial management. All these reforms will be undertaken alongside a concerted drive to strengthen governance and effectively fight corruption in all the institutions and processes of Government, as significant advancement in these areas are essential prerequisites for the growth, development and improvement in living standards that our people so rightfully expect and deserve. In our challenging fiscal space, we have sought to protect our vital health and education initiatives, as these are necessary to secure the health and advancement of our citizens. In support of this, we have undertaken to increase the government's contribution to feeding school children through home-grown school feeding programs, in order to increase elementary school attendance, which is currently one of the lowest among peer countries.

We believe that the measures and policies described in the attached MEFP are appropriate for attaining the objectives of this program. However, we will take any additional measures necessary to achieve those ends and will consult with IMF staff on the adoption of such additional measures prior to any revision, in accordance with the Fund's policy on such consultations. We also assure you that we will provide Fund staff with all information outlined in the attached Technical Memorandum of Understanding (TMU) on a regular and timely basis and will also share any other information that may be necessary to evaluate progress made under the program.

We intend to make public the contents of the IMF staff report, including this letter, the attached MEFP, the TMU, the informational annex, and the debt sustainability analysis carried out by IMF and World Bank staff. We therefore authorize the IMF to publish these documents on its website and other media once the IMF Executive Board approves the new four-year ECF-supported program.

Sincerely,

/s/	/s/
Hon. Samuel D. Tweah	Hon. Musa Dukuly
Minister	Deputy Executive Governor & Office-In-Charge
Ministry of Finance and Development Planning	Central Bank of Liberia

Attachments:

- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding
- Central Bank of Liberia (CBL) Action Plan: Priority Items
- Regularization of Central Bank Credit to Government, 2019 (Draft)

Attachment I. Memorandum of Economic and Financial Policies

INTRODUCTION

1. **In November 2017, the government of Liberia completed an Extended Credit Facility-supported program**. This program was initiated in November 2012. It was subsequently extended twice and supplemented with augmented ECF resources and disbursements from the Rapid Credit Facility and the Compensatory and Contingency Financing Facility to enable us to better deal with a series of external shocks and the Ebola emergency of 2014-16. During the program, sustained flows of international assistance, higher commodity receipts, and resources from the ECF provided a buffer of foreign exchange that made the conduct of monetary policy intervention feasible. A large share of aid flows and commodity receipts were employed to finance a bloated wage bill and other recurrent expenditure, crowding out the critical spending needed to develop and deepen the private sector. The onset of Ebola soon exposed the absence of a resilient and diversified private sector. Growth plummeted to nearly -2¼ percent by end 2016 before recovering somewhat in 2017, but the uncertainty surrounding the unexpectedly long election process depressed the recovery.

2. **Today, the Liberian economy needs a fundamental overhaul**, due to the loss of significant US dollar inflows as a result of the departure of the UN peace keeping force, the fall in commodity prices, and the decline in external assistance—all of which were factors that had underpinned Liberia's growth over the past decade. The reduced level of foreign exchange inflows mean that monetary policy can no longer be conducted using foreign exchange intervention, but instead will need to rely on interest rate-based instruments. This calls for new policies consistent with Liberia's radically different macroeconomic reality, which on the fiscal side demanded the passage of a credible national budget anchored to realistic revenue expectations. The national budget needed to be defined by robust fiscal rules that ensured effective and efficient cash management, a reformed wage structure, and strong revenue mobilization measures. These and other policies and reforms on governance will reverse recent declines in growth, assure greater investor confidence, and bring down inflation, which now hovers around 30 percent, adversely impacting the living standards of the poor and hindering implementation of our new development plan, the Pro-Poor Agenda for Prosperity and Development (PAPD).

3. **This Memorandum presents the economic and financial policies that the government intends to implement under the new program**. The government's overarching objective in the short term will be to achieve the macroeconomic stabilization needed to revive economic growth and underpin poverty-relieving development going forward, including through achieving the objectives of the PAPD. Key to this will be adherence and full execution of a credible FY2020 budget that is based on realistic resource estimates, and a tightening of the monetary policy stance to

reduce the rate of inflation. At the same time, we have started significant business climate reforms, aimed at lowering the cost of doing business and removing administrative barriers. We will continue to deepen reforms in this area to better allow our private sector to serve as the engine of economic growth. We will also carry out reforms to safeguard and deepen the financial system, improve public financial management, and safeguard debt sustainability. Over the medium term, we also anticipate a significant expansion of revenue-generating potential, and to ramp up investment in human and physical capital to better support accelerating, broad-based growth.

RECENT ECONOMIC DEVELOPMENTS

4. **The economic situation remains challenging**. After depreciating by 26 percent in 2018, the domestic currency weakened by another 24.6 percent by end-June 2019, while inflation remained high at 30 percent. Despite higher mining output, 2018 growth slowed to 1.2 percent from 2.5 percent in 2017, largely driven by slowing demand—as indicated by slower increases in the tax base, import volume, and bank credit. Moreover, available indicators point to a further weakening in the rate of economic expansion in the first part of 2019. This deterioration is coming at a time when vulnerability to shocks has risen significantly, as fiscal and external buffers are much lower.

5. **Fiscal imbalance lies at the heart of our disequilibrium**. Revenue collections improved in FY2019 but remained significantly below budgeted levels. While the collection of the fuel storage fee resumed following a legal challenge, trade taxes and taxes on goods and services declined with reductions in the level of economic activity. On the expenditure side, the contraction in domestic and external resources revealed a large structural imbalance. Specifically, the efficient allocation of resources was being hindered by an outsized wage bill that reached about 10 percent of GDP by the end of the last fiscal year, at which time it accounted for about two thirds of all budgetary outlays. As a result, productive expenditure has been essentially crowded out. In the last fiscal year, budget allocations exceeded actual resources, arrears increased, and the government was forced into a pattern of ad hoc expenditure compression that left many budget units well short of the operating budgets they needed to effectively deliver public services.

6. **Controlling the rate of inflation has proved difficult**. Government net borrowing from the CBL has increased considerably, including through a general run down of government deposits that began in April 2017. With a third of this drawdown being in Liberian dollars, currency in circulation expanded at an average annual rate of 25.9 percent between December 2017 and August 2019, and this served to validate the inflation that had originated with nominal exchange rate depreciation of the Liberian dollar. We are beginning to address this by absorbing excess liquidity through the introduction of interest rate-based monetary policy instruments, including a standing deposit and credit facility and the sale of Liberian dollar-denominated central bank bills to the public. However, uptake from the private sector has so far been slow due to a number of challenges, and inflation remains high.

7. Our financial sector is experiencing stress from several sources, and the challenging economic environment is posing risk to financial sector stability. The inflation, depreciation of the Liberian dollar, and general weakening of economic activity exacerbated the incidence of non-performing assets in the banking system. At the same time, the stock of private sector credit, at 13.3 percent of GDP at end-June 2019, remains low by regional standards.

8. On the external side, our situation is vulnerable, made more so by a decline in buffers. In 2018, our stock of gross reserves fell by about US$63 million to US$313 million, which was equal to 2.4 months of import cover. With continued lending to government, drawdowns of foreign exchange to cover the mounting gap between CBL's revenues and expenditures and intermittent foreign exchange interventions, our level of reserves fell further by end-September 2019 and now cover only 2.1 months of imports.

9. Levels of physical and human capital remain at very low levels. The country's basic infrastructure and public service facilities remain severely damaged since the time of the civil war. Less than 10 percent of roads are paved, with the rest often impassable in the long rainy season, which undermines mobility of the population and productivity of the economy. In addition, the level of human capital remains insufficient to support future sustainable economic growth. For example as of 2017, 51 percent of children between ages six and eleven are not in age-appropriate grades and 34 percent were out of school.[1] Moreover, 32 percent of children under five years old suffer from malnutrition severe enough to impact their future development.

OUTLOOK

10. Despite the recent deterioration, full implementation of the policies and reforms outlined in this memorandum are expected to lead to a favorable medium-term outturn. We anticipate that a Fund-supported program and our pursuit of transparent and well-conceived policies to stabilize the macroeconomic situation relatively quickly will boost confidence. Combined with measures to improve the business climate from its current low base and other needed structural reforms detailed below, we expect this to catalyze increased growth-supporting investment from the private sector.

11. Over the short term we have a difficult period of adjustment ahead, but this is necessary to secure non-inflationary growth over the program horizon.

- We anticipate that retrenchment within a credible and realistic fiscal program and our conduct of a tight and consistent monetary policy will reduce inflationary momentum relatively fast. Year-on-year inflation is expected to remain around 27.5 percent by end-2019 and is forecast to decline to 7 percent by end-2023.

[1]United Nations Children's Fund (UNICEF), UNICEF Annual Report 2017.

- This adjustment—though necessary to stop the hemorrhaging of purchasing power among the most vulnerable in our society—will extract a price in terms of growth over the short term. We therefore anticipate negative growth for this year of about -1.4 percent. Recovery will begin in 2020, however, as the macroeconomic gains are cemented into public expectations and business climate and other structural reforms take hold. Growth is expected to reach 1½ percent by end-2020 and to then post increasingly higher gains over the medium term as reforms continue.

12. **Maintenance of hard-won macroeconomic stability and further reforms to improve economic efficiency have the potential to ensure lasting medium-term gains**. On the macroeconomic front, a series of credible, realistic, and executable budgets combined with an appropriate monetary stance—reinforced by the ongoing refinement of our interest rate-based policy instruments—will reduce inflation over the program period. Much-needed business climate reforms are expected to lower costs significantly and allow the expansion of import-competing and export-oriented activity. At the same time, public financial management reforms, anti-corruption efforts, and a concerted effort to raise domestic resource mobilization by about 3 percentage points of GDP between now and end-FY2024 will significantly expand the net resource envelope and finance a ramping up of much needed investment in both human and physical capital. While we also intend to employ debt financing to accelerate this public investment program, we will ensure that the aggregate terms and volumes of debt contracted remain fully consistent with long-term debt sustainability. Our goal is a virtuous cycle where macroeconomic stability, rising private sector confidence, and improved public infrastructure create an increasingly welcoming environment for private investment. Only in this manner will we be able to create the production and employment opportunities needed to fulfill the aspirations of our young population. Over the medium term, we expect inflation to remain low and for growth to steadily accelerate to an annual rate of around 5½ percent by 2024.

ECONOMIC AND FINANCIAL POLICIES FOR THE PROGRAM PERIOD

13. **Economic and financial policies for the program period will be anchored by the PAPD**. We believe a Fund-supported program would be of significant assistance to us as we move to stabilize the economy, place it on a strong growth trajectory over the medium term, and catalyze financing for our development plan. As our policy agenda, outlined below, illustrates, we are prepared to significantly tighten monetary policy and implement an appropriate level of fiscal adjustment—including by cutting the wage bill which constitutes a third of budgetary expenditure. As contained in our PAPD, we will also pursue simultaneous reforms to improve the business climate, strengthen financial sector stability, raise revenue, promote debt sustainability and improve public financial management. We recognize that success in all these areas will depend crucially on our ability to strengthen governance and effectively fight corruption in all the institutions and processes of Government.

14. Our program is focused on three main objectives, with priority on near-term stabilization and measures to engender private-sector-led growth:

- ***Priority in the near term is on restoring macroeconomic balance***. This will involve holding expenditure to a level that is fully consistent with the resource envelope. Given its large share of expenditure, we recognized that wage bill rationalization was needed. Our program is in fact predicated on the initial wage bill correction we made at the beginning of this fiscal year, which is of sufficient size to free up the resources needed to formulate a credible budget, while improving both the equity and efficiency of the public sector compensation system.

- ***Putting Liberia on a fiscally sustainable growth path***. While our main emphasis is on infrastructure, particularly roads, we recognize that human capital accumulation is also in dire need of improvement. We will, therefore, follow a balanced accumulation of both, while carefully calibrating our recourse to external financing to remain at moderate risk of external debt distress. Business climate improvements are necessary to promote growth, and we will develop and maintain close communication with the business community to identify quick wins in this regard.

- ***Addressing weaknesses in governance and institutions of the public sector***. Governance issues, with priority on the central budgetary government and the CBL, will be forcefully addressed under our program to safeguard scarce resources and facilitate the first two objectives. The program will also address governance issues in State-Owned Enterprises (SOEs) and in the systemic banks, as losses in these institutions are potential liabilities to the central budgetary government and so could potentially erode already limited fiscal space.

15. The remainder of this MEFP outlines in detail the specific policies we have adopted or intend to adopt to achieve our program goals.

A. Fiscal Policy

FY2020 Budget

16. In support of our program, we enacted a credible and executable budget for FY2020 based on a realistic and achievable estimated resource envelope as projected in June 2019. This represents a break from past practice where available resources were overestimated, and subsequent cash shortages then led to ad hoc expenditure adjustment and levels of arrears detrimental to efficient budget planning and execution. We expect this strict adherence to the reality of our fiscal situation—combined with attainment of additional fiscal space from a comprehensive restructuring and reduction in the size of our wage bill and a package of revenue augmenting measures—to provide Ministries, Agencies, and Commissions (MACs) modest but sufficient financial wherewithal, including in goods and services, for them to carry out their core mandates. With a predictable and secure source of funding in place, MACs will be able to plan their activities with confidence in the year ahead, execute expenditure in a timely, predictable, and efficient manner, and ultimately provide a reliable supply of needed government services to our population. ***The budget was agreed as a prior action for program approval***.

17. We inaugurated a comprehensively restructured civil service wage system at the beginning of FY2020 to free up resources for productive spending. It has been designed to effect significant savings while improving equity and transparency and was implemented as a ***prior action for program approval***.

- The size of our civil service, which employs less than 2 percent of the population and close to 20 percent of the formal workforce, is comparable to regional peers. In fact, the number of clinical health workers and qualified teachers is below what it should be. But at the same time salaries, particularly at the upper end, were high enough to drive the wage bill up to an unsustainable level where it was crowding out spending on goods, services, and public investment and inhibiting the government's ability to invest or to supply essential services.

- The initial correction to the wage bill capped total compensation expenditure for FY2020 at US$297 million, 9.5 percent of GDP, a nominal reduction from the previous year of about 9 percent.

- The new wage system is more equitable and efficient than the structure it replaced. It will eliminate both general and special allowances which had previously led to significant inequity in the system. These accounted for over 40 percent of total compensation and were awarded to staff at the discretion of the heads of the individual spending agencies. Equity has also improved through efforts made to ensure that the new wage structure rewards similar work across MACs at relatively the same rate and by ensuring that most of the burden of wage reduction was borne by higher paid employees. It is noteworthy that salaries of about 20 percent of the total public sector work force, mostly those in the lower salary range, saw their pay increased because of the restructuring exercise. In a show of necessary and much appreciated solidarity, the Legislature and the Judiciary also joined the Executive and the civil service in the salary reduction exercise.

- Since the beginning of FY2020 (July 1, 2019), all central government employees have been graded and paid through the automated payroll system jointly operated by the Civil Service Agency (CSA) and the Ministry of Finance and Development Planning (MFDP), though about 2/3 of employees are still in the process of submitting and verifying the National Identification Registry (NIDR) numbers. Going forward, we will issue (or amend) the regulation on hiring of public servants to establish that employment and HR management will be jointly controlled by the CSA and MFDP and that all MACs (except for security sector and integrity agencies) will not be able to complete the hiring process without registering the new hire at the CSA, which will verify and enter the new hire into the automated payroll system only if allotments are available (structural benchmark, **SB**). The past practice of allowing MACs to hire outside of the CSA with resources from their allowance allocation has been discontinued along with the allowances. This centralization of hiring and administration will give us long-sought after full control and oversight over the size and composition of the civil service. All employees now have an official grade and pay level registered under the National Pay Grade System, in addition to improving transparency, will also set the stage for the eventual introduction of a meaningful performance appraisal system to promote accountability. Centralization of the government payroll and record keeping will also yield other benefits, savings, and means of control. For example, to facilitate the elimination of ghost workers from the system, we will issue a regulation by end-January 2020 establishing an end-June 2020 deadline for all public employees to have obtained biometric identification, and no government worker will be paid without biometric ID from end-June 2020. We will provide detailed information on compliance to the Fund **(SB)**.

- To reflect the rising proportion of tax revenue collected in Liberian dollars, we plan to increase the share of public sector wages paid in Liberian dollars to between 20 and 35 percent of total renumeration. On the first day of each fiscal year, the monthly Liberian dollar component of the wage renumeration will be set by multiplying the total monthly salary in US dollars by the share to be paid in Liberian dollars and then by the CBL published exchange rate in force as at July 1 of the new fiscal year. Total monthly renumeration will then be set equal to two monthly payments: (i) the first is this fixed nominal Liberian dollar amount that will be paid in Liberian dollars; and (ii) the second is the monthly total wage in US dollars multiplied by the share to be paid in US dollars. These amounts will be fixed in nominal terms for the entire fiscal year.

- The base for personal income tax for each employee in the new wage structure will be the total renumeration received by each employee, the totality of which will be paid through the automated payroll system jointly operated by the CSA and the MFDP. The PIT bracket schedule in US dollars was defined in the FY2020 budget law.

18. To fill the remainder of the fiscal gap we secured an additional US$26.8 million (0.9 percent of GDP) of resources through tax policy measures. These measures, which are in line with our Domestic Revenue Mobilization (DRM) strategy, were identified in consultation with IMF staff and will start at the beginning of FY2020 on July 1, 2019. These include: (i) calculating taxable income of public servants from a base that includes total renumeration (combined salary and now-eliminated allowances); (ii) becoming current on the agreed migration plan to the ECOWAS Common External Tariff (CET) by moving directly to Year 2 CET tariffs; (iii) implementing the new excise tax law; (iv) modifying the revenue sharing ratio of SOEs from an average of

58 percent to the government and 42 percent retained by the SOE to 70/30 percent, respectively; and (v) additional one-off measures.

19. Our budget is also designed to provide effective support to monetary policy to reduce inflation. With the fiscal budget fully financed, we will make no recourse to CBL financing during the program. To this end, we have established and set a ***ceiling on the CBL's gross direct credit to the central government as a performance criterion (PC) under the program***.

20. We commit to ensuring that the CBL's balance sheet is restored to a viable financial position to ensure the effective implementation of monetary policy. To this end, further to the recommendations from IMF technical assistance, additional assistance was requested to update the assessment of the CBL's policy solvency and assist with formalizing the contractual terms for all outstanding stock of government debt on the CBL's balance sheet (US$497 million as estimated at end-October 2019). Interest earned by the CBL on this long-term loan will be set at 4 percent per annum, and amortization of principal will commence in 2029. The loan has been agreed with the CBL and will be formalized through an Agreement (Attachment IV). In our assessment, this Agreement will serve as our commitment to supporting the CBL to implement its monetary policy.

21. With adoption of the measures outlined above, the FY2020 budget is fully funded as projected in June 2019 and capable of functioning as a policy instrument for implementing our economic agenda. Relative to FY2019, our resource envelope has risen by 2 percentage points of GDP, with 1.6 percentage points increase from higher cash grants and the remainder split between tax increases in income, profits and capital gains, as well as international tax, and higher nontax revenue from greater negotiated transfers from SOEs. Spending growth is constrained by significantly higher amortization payments resulting from the end of grace periods on key loans and debt service of existing bonds. However, wage bill reduction of 1 percentage point of GDP has freed up the space needed to protect key components of spending and to remain in line with the revenue envelope.

22. We have protected our budget from derailment by improving its inclusiveness, identifying and preparing for contingencies, and strengthening our monitoring capacity. To the extent possible, the budget identifies all the liabilities we will be called on to cover this fiscal year. In addition, because of advancements in our accounting system and cash management we are now in a much better position to monitor our fiscal activity and to detect problems early in the process.

- The government accumulated a sizeable amount of arrears from FY2019 and from previous financial years which threaten to derail budget execution if there is no clear strategy of resolving them over the medium term and outside the budget. As a first step, we are working with MACs to establish the total amount of arrears. Once the number is established, we will request the GAC to verify these claims before we negotiate any repayment strategy with the concerned suppliers. We expect the cash payments through the budget to start in FY2021 while some will be cleared through the issuance of FC/DC denominated, transferable bonds.

- To more clearly identify contingent liabilities that could impact the budget, we are improving our ability to monitor and control SOEs, as well as our ability to identify weaknesses in commercial banks (¶41 and ¶30). Under the program, all loans contracted by SOEs will be approved by the debt management committee as stated in the law. In addition, SOEs will be required to provide quarterly reports of their financial position to the SOE unit of the MFDP to track their performance.

- Considering the uncertain and increasingly volatile external environment facing us, we have included in the budget a contingency fund of US$3 million (0.1 percent of GDP) to be drawn on in the event of unforeseen emergencies or if unanticipated claims arise. For transparency, we will include a report on the individual expenditures made under this budget line in our regular quarterly fiscal publication and will make this available to IMF staff.

- Finally, we have significantly expanded our capacity to monitor both revenue and expenditure (¶PFM section). In consultation with the Fund, we developed a set of four fiscal reporting tables (included in Table 4 of the TMU) that provide us with a comprehensive and detailed view of central government revenue, expenditure, and the overall fiscal position. In a major advance, this data is now fully reconciled with our bank balances and is being produced every week with no more than a four-day lag. We began producing these tables on June 7 as a means of giving us better and more timely oversight and control over fiscal developments, and ***we have been sharing these with the Fund as a prior action for program approval***.

23. We will closely monitor and evaluate our fiscal situation on a regular basis to ensure it remains consistent with our program objectives.

- Our fiscal anchor will be monitored using the debt-stabilizing primary balance, a measure that has the advantage of allowing fiscal policy to meet its macroeconomic and debt-sustainability objectives using either revenue or expenditure measures. To monitor on-budget activities that are fully under the control of the central government, we have set a ***ceiling on the on-budget primary balance excluding grants as a performance criterion under the program***. From a developmental perspective, however, improving revenue performance remains a crucial element of our program and necessary to avoid poor revenue performance locking us into a low-investment, low-growth outcome. Consequently, we have set a **floor *on revenue collection as an indicative target under the program***.

- Similarly, given the importance to our medium- to long-term potential of maintaining a sustainable level of debt, we have set a ***ceiling on the ratification of new non-concessional external debt of the public sector as a continuous performance criterion under the program***. This will be operationalized with the measures and undertakings outlined in ¶32-35. We will also set ***a ceiling on new external arrears of the central government as a continuous performance criterion***.

- We will adopt sufficiently strong measures to ensure the non-accumulation of additional domestic arrears throughout the program period. While we anticipate that our utilization of realistic resource estimates and the inclusion in our spending plans of all identifiable obligations will be sufficient to prevent their emergence, we have also taken the additional safeguard of setting a ***ceiling on new domestic arrears or payables as an indicative target (IT) under the program***. Our much-improved cash management system and better integration with budget execution is designed to prevent new arrears.

- To safeguard social protection and physical and human capital development imperatives during the program period, a ***floor on social and other priority spending will be established as an additional indicative target under the program***. This will comprise payments from the budget for wages of school teachers and clinical health workers and on the home-grown school feeding program. In FY2020, we are also implementing the Grant and Subsidy Policy approved in the FY2019 Budget Act in support of empower key entities in the social development sectors to allocate the limited fiscal resources most effectively. Collectively these could improve the degree of social protection extended to vulnerable groups during the crucial early years of our economic program (¶1). We also propose to set an indicative target on ***total on-budget capital spending*** to safeguard funding for these and other endeavors that we have included in our domestically financed public investment program.

- Given the risk of revenue shortfall and anticipated spending pressure in the second half of FY2020, we are committed to submit a recast budget to the Legislature by end January 2020, if the updated revenue projection as of end December 2019 falls short of US$526 million budget.

B. Monetary and Foreign Exchange Policies

24. The deterioration in our external position over the last 2–3 years has necessitated a revamping of our monetary policy framework. Prior to 2016 inflows of aid for Ebola relief and the support of the UN peace keeping presence (UNMIL) ensured the CBL enough supply of foreign exchange for intervention in our shallow foreign exchange market, and the relatively stable nominal exchange rate that resulted from this was broadly enough to contain inflationary pressure. For the last two years, however, as aid declined and UNMIL departed with the successful conclusion of its mission, our net foreign exchange inflows underwent a large decrease, curtailing both the CBL's scope for intervention and its influence over monetary conditions.

25. In response, with IMF technical assistance, the CBL Board approved in September 2019 a new monetary policy framework. This included an expanded and modernized policy tool kit of interest rate-based instruments including the Standing Deposit Facility (SDF), the Standing Credit Facility (SCF), the Intra-day Liquidity Facility (ILF), and the sale of central bank bills (CBBs) to the bank and nonbank public. The first Monetary Policy Technical Committee (MPTC) meeting was held in June 2019, and the second was held in October 2019, while the first Monetary Policy Advisory Committee (MPAC) meeting was also held in October 2019. To operationalize the new framework, the MPAC recommended a number of policy measures, including adjustments in the interest rates of the SDF, SCF and CBBs with various tenors, which were approved by the Board of Governors in early November 2019. Consistent with this, the rate on the SCF was set to complete the establishment of an upward sloping yield curve. These changes will significantly help to tighten our monetary policy stance and, for the first time, offered positive real interest rates for Liberian dollar investments to the public on a consistent basis. As an important part of this process, we will strengthen our communication strategy to yield the desired effect. To ensure that the operational framework continues to develop in line with the best practices of a modern monetary policy implementation framework, we will continue to introduce refinements and expect to benefit in this from further technical assistance including from the Fund.

26. We anticipate that our new interest rate based instruments will eventually give us the control over Liberian dollar liquidity needed to effectively influence monetary conditions.

- Key to this will be actions to deepen the interbank market so that the SDF and SCF together will create a meaningful interest rate corridor that establishes a true opportunity cost of money for commercial banks. To advance this aim, we will modernize our currently moribund interbank market by automating the collateral management system and imbue it with an appropriate legal environment.

- Under the new framework, the SDF interest rate will serve as a policy rate floor to signal the monetary policy stance and to anchor the interest rate structure of the economy. Going forward, the CBL will consistently set the policy rate at an appropriate level and take other actions as necessary to ensure positive real returns on Liberian dollar savings. With these incentives established, we expect commercial banks to increasingly compete for deposits and this will eventually raise retail deposit rates and ultimately the entire interest rate structure in the economy to levels consistent with agents holding their savings increasingly in Liberian dollars. With the Liberian dollar imbued with a long-missing store of value function, demand for the currency will be affected by the policy rate, and this will give the CBL influence over monetary conditions as well as over the economy's choice regarding the currency composition of savings. The CBL would then have at its disposal a modern monetary policy framework where the policy rate influences the intermediate target of the exchange rate, which then influences inflation as the objective of monetary policy. As the Liberian dollar gains wider acceptance, additional monetary control would be obtained from the impact of interest rates on the volume of Liberian dollar domestic credit and hence on aggregate demand.

- Setting an effective SCF rate at about 500 bps above the SDF interest rate will ensure that during the immediate phase of fiscal and monetary tightening, banks can be assured of liquidity access—subject to their posting of suitable collateral—that will enable them to conduct normal financial transactions.

- We adjusted the reserve requirements on both US dollar and Liberian dollar commercial bank deposits to harmonize the requirement rate in the two currencies. This necessitated reducing the Liberian dollar ratio from 25 to 15 percent and increasing the US dollar ratio from 10 to 15 percent. As our intention was to do this in a manner that had a neutral impact on the amount of Liberian dollars sequestered, it was necessary that at least a portion of the additional reserve requirement on US dollar deposits be held in Liberian dollars.

27. During our program, we will employ our new interest rate-based instruments of monetary policy to reduce inflation. We recognize, however, that it will take time for this framework to reach its potential and for the commercial banks to respond fully to the incentives offered. Consequently, for liquidity management we will place significant reliance initially on the sale of CBBs and target these sales increasingly at the non-bank private sector as a means of absorbing excess liquidity more directly. We will continually evaluate the market's response and will remain open to other measures—including hikes in the interest rate—as possible ways and means of increasing the CBBs' marketability. In this regard we have already introduced shorter maturity CBBs that we believe will help to increase sales at the current level of confidence. We anticipate, moreover, that the adoption of a strong Fund-supported program, and its inclusion of an effective reform agenda within which the CBL can improve operational controls and processes, will boost confidence in our policy framework, as will the government's commitment made under the program to forgo any recourse to CBL financing and to ensure policy solvency. To operationalize and monitor the stance of monetary policy, we have set a ***ceiling on the stock of net domestic assets of the CBL as an indicative target under the program***.

28. Rebuilding and maintaining a stock of foreign exchange reserves adequate for insulating our economy from unanticipated shocks is a key objective of our program. Reserve stocks have declined from 2.4 months of import cover for 2018 to 2.1 months of import cover for the first half of 2019 due to limited foreign reserve position as a result of foreign exchange market intervention, CBL lending to government, and reserve drawdowns used to finance the CBL's own budget deficit. With our program set to forcefully curtail all three of these factors, and with the anticipated disbursements from the Fund under the program, we anticipate our reserve levels will recover to 2.3 months of import cover by end-2020 and increase to 2.6 months by the end of the program period. To further our goal of improving our reserve cover, we have set a ***floor on the change in the CBL's net foreign exchange position as a performance criterion under the program***.

- **We will demonstrate the CBL's commitment to exchange rate flexibility by allowing the exchange rate to adjust to market fundamentals**. We will confine intervention to short-term smoothing operations, to operations aimed at rebuilding reserves, and to actions aimed at correcting market imperfections that hinder the ready availability of foreign exchange. In this latter regard, we will maintain the surrender requirement on foreign currency remittance inflows at 25 percent. We recognize this as a capital flow measure but consider its maintenance to be necessary until macroeconomic stability is restored. We will closely monitor this measure to ensure it is removed once it is no longer needed. To the extent that part of the foreign exchange obtained in this manner is used to rebuild reserves, we will neutralize the monetary impact through more active sales of CBBs. Over the longer term, the rationale for intervention is expected to decline as our interest rate-based instruments become more efficient and our fundamentals improve. At such a time, we would hope to be able to remove this requirement completely.

- **Our exchange rate system will be fully consistent with our acceptance of the responsibilities under Article VIII of the Fund's Articles of Agreement**.[1] As such, the CBL will intervene in the foreign exchange market only through competitive auctions that are open to all interested parties. In this regard, we will improve the management and structure of the recently resumed foreign exchange auctions for transparent price determination of the foreign exchange market. We will, therefore, ensure that: (i) access is granted to all licensed intermediaries (authorized dealers) that are in good standing; (ii) no constraint is imposed on the price that bidders can submit; (iii) allotment at the auction is determined solely on the price submitted by bidders; and (iv) auction results are published. To guide the market, the CBL will publicly make available the amount of foreign exchange to be auctioned in advance. These new policies have already been reflected in the revised Auction Regulations issued by the CBL on September 10, 2019.

- **We will contain the drawdown of reserves arising from the growing gap between the CBL's revenue and its expenditure on operations and capital development**. Over the last three years, these deficits were responsible for a collective decline of reserves of about US$75 million (0.6 months of import cover), and significant improvement in the deficit is needed if we are to meet the program's reserve targets. The CBL Board has therefore approved a revised 2019 and 2020 budget as a ***prior action for program approval***. The

[1]We will not: (i) introduce or intensify exchange restrictions, (ii) introduce or intensify import restrictions, (iii) introduce or modify MCPs, or (iv) conclude bilateral payment agreements in violation of Article VIII of the Articles of Agreement.

revisions, outlined in the TMU, benefitted from IMF technical assistance and contain a number of expenditure-reducing measures, including that the CBL matches the civil service in effecting a 10 percent reduction in its wage bill. Significant cuts were also made in other areas and include a 28 percent cut in stationary, a 33 percent cut in travel, an 18 percent cut in vehicle operating expenses and a 33 percent reduction in non-currency printing capital spending. In addition, the CBL has also switched the currency composition of its wage payments and Board expenses to 35 percent in Liberian dollars and 65 percent in US dollar the distribution now paid by government, and we expect this to help stem the outflow of foreign currency. In this regard, for 2020, the CBL will switch the currency composition of its wage payments and Board expenses to 40 percent in Liberian dollars. In addition, it will switch the currency composition of its all other expenses to 60 percent in Liberian dollars. With these measures in place, the CBL's cumulative operating expenditure (excluding interest payments) will be contained in 2019 to US$32.9 million and to US$24.2 million in 2020 and reduce the use of gross reserves to finance operational losses down to zero in 2020. Ongoing retrenchment will ensure that expenditure and the operating deficit narrow further over the medium term. While still sizable, the deficit for this year and next is consistent with the programmed increase in reserve cover. To ensure enough reserve accumulation, we set a ***ceiling on the CBL's operational and capital expenses excluding interest expense on monetary policy instruments as a performance criterion under the program***.

29. Meeting our reserve target will be facilitated by our enhanced ability to monitor inflows and outflows of foreign exchange and to reconcile them with stocks. Since June, in collaboration with IMF staff, we have prepared weekly reconciled reports on foreign exchange movement and shared these with Fund staff as a ***prior action for program approval***. We will continue to prepare and share these reports on a weekly basis, as an effective means of monitoring foreign exchange movements and detecting deviations from targeted levels early in the process.

30. Strengthening banking supervision will be one of the key pillars of our reform program. The banking sector is suffering from high nonperforming loans that stood at 13.8 percent at end-December 2018 compared to 14.9 percent at end December 2017. IMF technical assistance on non-performing loans and financial sector statistics has highlighted the poor underwriting standards of banks and has discovered poor data quality of reporting to the CBL by banks that is often in breach of the CBL's regulations. To ensure financial stability, we will, by end-June 2020, conduct a detailed assessment of credit underwriting standards across banks and will provide an assessment of credit quality and adequacy of provisioning based on banks' internal data. We will request TA for this purpose if necessary. If the picture is unclear after this assessment, an Asset Quality Review (AQR) would be a second step. As a first step of the detailed assessment, we completed in November 2019 on-site examinations of financial institutions that have overdrawn balances at the CBL as of end-September 2019. Furthermore, by end-December 2019, we will appoint a reputable external auditor to review the examinations' findings. As information from these assessments and reviews becomes available, we will, in consultation with Fund staff, take any measures needed to ensure financial stability, which may include actions related to asset classification, provisioning, the treatment of non-performing loans, capitalization, and reorganizations. By end-January 2020, we will submit comments on the desk review of the Financial Institutions Act (FIA) to IMF staff and request drafting TA, with a view to submitting amendments the Legislature to strengthen the bank resolution regime by end-September 2020. Shortly after passage of the FIA, we will issue updated regulations and operational guidelines on bank resolution. To ensure liquidity risks are contained, we will include in the new (FIA) legal provisions to enable the CBL to impose additional liquidity buffers set at the level of the individual banks. We will also ensure that the emergency liquidity assistance (ELA) and resolution frameworks remain effective in providing a backstop for any emergent weaknesses in the financial sector. All these measures have been added to the CBL Action Plan **(SB)**.

31. Reforms to address financial sector weaknesses will be prioritized in line with the legal framework and capacity. A financial soundness indicators (FSIs) mission from the IMF in April 2019 established that the banking system in Liberia requires significant strengthening. Risk weighted assets are in some cases incorrectly calculated, regulatory capital has been overstated, and banks have treated their exposures to government inconsistently. However, since that assessment the CBL has been working with banks to correct errors in reporting, especially in the computation of risk-weighted assets—and training on this has been provided to the staffs of commercial banks. With regards to banks' exposure to the government, the government issued a bond of US$65 million to clear its arrears to commercial banks. Going forward, to assess financial stability risks, our first step will be for the CBL to enforce compliance with reporting requirements and to improve data quality and verification in line with IMF staff's recommendations. In this regard, we are working with IMF staff to determine key steps, including the design and production of high frequency liquidity monitoring.

C. External Sector Policies

32. The Debt Sustainability Analysis (DSA) suggests that Liberia remains at moderate risk of external debt distress and high risk of overall public debt distress with limited space to accommodate shocks. Following the completion of HIPC, debt has accumulated rapidly due to scaled-up infrastructure spending and our response to a series of adverse shocks. The external debt stock amounts to $1,016 million (34.9 percent of GDP) at end FY2019, comprising mostly of multilateral loans.

33. Our medium-term debt strategy is predicated on maintaining debt sustainability, and anchoring this by limiting the debt-stabilizing primary deficit (of on-budget activities) to 1.4 percent of GDP. We anticipate external borrowing disbursements of $930 million in the medium term, most of which will be on concessional terms. This implies an increase in annual disbursement from US$145 in FY2019 to an average of US$186 per year given our need to move forward with our Pro-Poor Agenda. Within this envelope, we will increase the implementation rate of existing ratified loans of which about US$340 million are yet to be disbursed.

34. We remain committed to limiting contraction of loans on non-concessional terms, refraining from nontransparent collateralized agreements, and ensuring that new debt is contracted transparently. We recognize that a slight worsening of borrowing terms, or a further weakening of monitoring capacity, could move our country into high-risk of debt distress. However, given the need to expedite the accumulation of infrastructure and human capital, we plan to disburse an average of $50 million per year on non-concessional terms while giving due consideration to the terms of said borrowing and the country's absorption capacity.

35. Recently, we have made significant efforts to improve our debt management monitoring capacity. Our technical team at the Debt Management Unit (DMU) has received scoping technical assistance from the IMF's Statistics Department and other development partners on debt monitoring and government financial statistics. Based on this, we have revamped our debt statistics records and debt service projections and stand ready to provide monthly updates to IMF staff. In addition, four staff have taken basic training on the new Debt Sustainability Framework (DSF). However, there is a need to further enhance the capacity of DMU staff to enable the unit to conduct its internal debt statistics undertakings. The DMU is currently able to derive long-term debt service projections from an upgraded CS-DRMS, but remains concerned about the capability and reliability of the backup system. Improvement to the current IT environment is needed in the year ahead.

D. Structural Reforms

Public Financial Management

36. Better integration of cash management functions with the budget execution process is needed to support timely budget execution without accumulating arrears. We have therefore formally established the principle and practice that release of cash allotments and financial budgets must be aligned with projected cash availability to ensure that payment vouchers can be paid in full and on time. To operationalize this, the Liquidity Management Committee (LMC) will review the updated cash plans monthly. It will then provide recommendations to the Treasury Management Committee (TMC), which will set a formal overall limit for quarterly allotments (for planning purposes) and recommend monthly financial budgets (cash releases providing spending entities with the permission to commit funds, issue purchase orders and make payments for goods and services received). In order to support good internal control processes and the principle of segregation of duties, the Budget Department will be responsible for making allotments distributing resources to the line ministries, whereas the Fiscal Affairs Department of the MFDP will be responsible for issuing financial budgets (cash releases) through the IFMIS system based on up to date liquidity information and disbursement requirements. In this latter regard, the LMC and the

TMC have resumed meetings and have developed, and are implementing, effective strategies to keep cash allocations in line with available resources and to ensure its consistency with the approved fiscal year budget. In the absence of a CBL overdraft facility or other recourse to CBL lending, we are now using periodic sales of treasury bills to the private sector to manage minor cyclical revenue inflows and short-term cash needs.

37. We will take steps to improve the accuracy of fiscal reporting and to ensure that allocations are spent as intended by the budget. Our improved weekly reconciled fiscal reporting format (¶22) gives us an accurate depiction of the volume of spending by MACs and the purpose for which the allocation was made. The next level of control is to ensure that spending is made only for the purposes allocated for by the budget and the allotment process. Control in this regard is particularly important for expenditure financed by MACs' own bank accounts, as currently about 50 percent of MACs that use these do not submit the ex post financial statements that are required by law. This is a significant issue as it inhibits our control over the use of public funds and results in a disclaimer of opinion by the Auditor-General concerning the final government financial statements. Beginning in April 2020, we will insist on quarterly, reconciled reporting from the 9 largest MACs that effect part of their spending through their own bank accounts, this information will be provided through the quarterly financial statements submitted to the Reporting and Reconciliation Unit. The eleven Advance-Receiving Institutions that effect all their expenditure in this manner will report monthly starting January 2020 through the IFMIS system. We have already discontinued the previous practice of issuing quarterly pre-funding payments to MACs and now limit the maximum allotment for one month. For MACs receiving advances under code 321502, sanctions will be applied to those that do not submit their financial statements within 2 weeks of the end of the month, or for whom the Comptroller General determines that the reports are inaccurate. These sanctions will be on a graduated basis and further detailed circular by the CAG office before December 2019. We will roll this requirement out to the remaining cash-receiving entities as resources permit.

38. To ensure the technical expertise to implement and monitor the controls over the allotment process, we will expand our technical capacity. To this end, we have formally requested IMF technical assistance to upgrade the capacity of the Accounting Services and the Expenditure Management Units within the Fiscal Affairs Department of the MFDP. We have prepared new PFM Regulations enforcing the use of the IFMIS as the central repository for processing all transactions relating to budget execution (all MACs with no exceptions). All government contracts will have to be accompanied by a purchase order generated by the IFMIS, and invoices will have to be accompanied by an IFMIS payment voucher, enforcing a standard commitment and budget execution process with imbedded IFMIS controls, which would enhance transparency and data accuracy within the IFMIS. This will improve reporting accuracy and transparency.

39. We will prepare the groundwork to rapidly adopt a treasury single account (TSA). We will develop a TSA concept note, with the chosen TSA structure and a detailed roadmap including clear milestones, and have it approved at cabinet level by March 2020. As a precursor for adoption of the TSA, we will complete the inventory and rationalize bank accounts with the CBL and commercial banks by June 2020 **(SB)**, which will entail: (i) review and refine the policy restricting the number of bank accounts held by MACs; (ii) complete the stock-taking exercise of bank accounts; (iii) instruct MACs to close their bank accounts at commercial banks and transfer balances to the CBL (excluding donor funded projects, salaries funding accounts, and revenue collection accounts); (iv) the CBL to set up bank accounts following the closure of MACs' bank accounts and transfer of cash balances to the CBL by commercial banks; and v) supply a list of bank accounts that remain at commercial banks to IMF staff along with a rationale for their continued existence. The desired TSA structure is the "TSA single structure with sweeping", in which: (i) all revenue is swept to the center; (ii) quarterly and monthly cash allocations to MACs are eliminated and replaced with credit limits in their CBL-based expenditure accounts; and (iii) all expenditure takes place either through IFMIS or through the Zero Balance Accounts held by MACs. With the exception of donor-linked project accounts, each MAC will be limited to one Liberian dollar account and one US dollar account, both to be held at the CBL.

40. To improve efficiency and monitoring of government payments, we will coordinate with the World Bank to implement an electronic fund transfer system (EFT). The system aims to automate reconciliations and provide real-time information on cash balances. The CBL has prepared project documentation for introducing EFTs for GoL payments and has defined processes for the MFDP to send payment instructions electronically to the CBL. Fast and simple payment processes, together with automated reconciliations, would increase efficiencies in business processes, allow cost savings and reduce operational risks for the MFDP, the CBL, and commercial banks. The EFT project is expected to be inaugurated this autumn, with loan financing from the World Bank that was approved in July 2019.

41. We will improve our ability to monitor and control the largest SOEs and to identify fiscal risks and contingent liabilities from their operations that might impact our budget. We have started the regular monthly convening of a high-level meeting between SOE CEOs and the government represented by the Minister of Finance, Minister of State, Commissioner General of the LRA, and other relevant ministers. Among other things, this meeting will ensure that the 8 largest State-Owned Enterprises (SOEs) provide quarterly reports on their financial performance to the State-Owned Enterprise Reporting and Coordination Unit (SOERCU) at the MFDP. These reports will be shared with IMF staff. We will also ensure that the SOERCU prepare and share with IMF staff comprehensive reports based on this data **(SB)**. As an immediate priority, the Debt Management Unit in the MFDP, with assistance from the SOERCU, will then establish a database on government on-lending and guarantees to SOEs. This database is expected to establish some clarity on terms under which these debt instruments have been provided to SOEs to facilitate the early detection of problems that could lead to claims on government. In this latter regard, we will ensure also that the terms and conditions under which any debt-financed funds have been transferred to SOEs are clarified, to ensure that repayment responsibilities are established and monitored and that the transactions are appropriately recorded in the accounts of both the government and the SOEs. In the months ahead, we will seek technical assistance to study the question of whether to fundamentally re-organize the Maritime Authority. This study will include an analysis of the benefits of transferring the duties of the Maritime Authority to the Ministry of Finance and Development Planning. In the interim period, we will seek ways and means of having all revenue accruing from Liberian International Ship & Corporate Registry (LISCR) for the operation of the shipping and corporate registries directly deposited in the LRA accounts.

Public Procurement

42. To enable greater disclosure and transparency of procurement information, we will publish on the PPCC website all information on procurement opportunities and awards. We will revise the PPCC regulations to require MACs to publish on the PPCC's website all relevant information on their procurement activities (from planning to awards). We will setup a reliable and comprehensive procurement database, which will be the first step of an e-procurement system and which will allow the PPCC to systematically collect, maintain, and publish information on public procurement for monitoring the performance of procuring entities in terms of efficiency and compliance with the legal framework. To ensure MACs are following the correct procurement procedures, we will implement a compliancy audit program. We will set up a team of audit experts and implement an annual program of audits.

Governance

43. To combat corruption and its proceeds, in addition to providing our integrity institutions with enough funding for them to carry out their mandates, the government will implement the following measures:

- In line with the United Nations Convention against Corruption requirements, the government will adopt and submit to the National Legislature amendments to the Penal Code to criminalize all corruption acts, including bribery of foreign and international organization's officials, illicit enrichment, abuse of power, trading in influence, and obstruction of justice in line with the United Nations Convention against Corruption (**SB**, Table 3). We will also introduce legislation aimed at establishing a special, fast track process for prosecuting corruption.

- The government will approve and submit to the National Legislature amendments to AML/CFT laws to upgrade the AML/CFT framework in line with the FATF Recommendations and in accordance with IMF technical advice.

- The government will approve and submit to the National Legislature amendments to the Liberian Anti-corruption Commission (LACC) Act and the Code of Conduct to upgrade the asset declaration system in line with best practices, including by centralizing the submission of asset declarations to the LACC, providing the LACC with the necessary verification powers, including dissuasive and proportionate sanctions for non-compliance, and granting public access to asset disclosure information in accordance with the existing code of conduct. In this regard, we will utilize the new CSA database of public employees to tag those positions for which declarations are required. We will then establish deadlines for those declarations to be received, after which salary payments will be suspended in the event of noncompliance.

- We will implement the recommendations arising from GAC audits on a timely basis and in a transparent and unbiased manner.

- We will enforce the existing legal right of the LRA to conduct tax audits of all taxpayers, including public entities and SOEs, at the discretion of the LRA and will establish sanctions on these entities for noncompliance.

44. Strengthening the independence, governance and accountability of the CBL are cornerstones of our program. In this regard, after further consultation with IMF staff, we have completed draft amendments to the CBL Act that will support the modernization of the monetary policy framework, allow the CBL to pursue monetary policy with price stability as its prime mandate, and improve CBL governance. We will submit these amendments to the Legislature when it returns to session in February 2020 (**SB**). In addition, to restore the CBL's internal oversight and accountability frameworks:

- Our Legislature has confirmed the appointment of the executive and non-executive CBL Board members in accordance with the current CBL Act **(PA)**.

- We have updated the CBL Action Plan in a manner consistent with IMF technical advice to incorporate the recommendations of the Kroll Associates report and revised time-bound deliverables (**PA**).

- We have appointed a reputable firm to co-source the CBL's Internal Audit function in critical operations based on a term of reference in line with Fund staff advice (**PA**).

- We will implement the actions in the revised CBL Action Plan to strengthen the CBL's independence, governance and accountability. Thereafter, on a quarterly basis, the CBL will provide an updated Action Plan (**SB**).

- We will ensure that the semi-annual special audits of CBL foreign exchange movements are submitted in accordance with the current delivery date of six weeks after the end of the reporting period, and that these are shared with Fund staff no later than eight weeks after the end of period, as specified in our Action Plan.

- The CBL will prepare regular weekly reports on daily foreign exchange cash flows and other domestic indicators, in a form outlined in the TMU. These reports will be shared with Fund staff on Wednesday of each week and prepared for the previous working days Wednesday-Tuesday and —and will replace the monthly reports on foreign exchange withdrawals from the CBL previously specified in the original CBL Action Plan. A consecutive series of four such weekly reports have been transmitted to the Fund on this schedule ***as a PA for approval of the program***. The CBL Internal Audit Department will randomly check the accuracy of the daily data at least five times a month, plus on the last day of each month, and send a report of its findings to the Management of the CBL. This report will be shared with IMF staff with no more than a lag of five working days from the end of each month.

Tax Policy

45. Tax policy measures in addition to those included as part of the FY2020 budget (¶18) will be implemented over the program period to raise revenue by 3.1 percentage points of GDP. These include:

- Increasing the Goods and Services Tax (GST) rate from 10 to 11 percent. As the tax is currently only applied to a narrow range of goods and services, we also plan to expand the tax base by applying the tax to all goods and services except for a limited subset that will be explicitly listed as exemptions. These measures are expected to raise 0.3 percent of GDP in revenue.

- Following the ECOWAS CET migration plan to transition to Year 3 and subsequently Year 4 of the schedule. The increase in effective tariff rates is already factored into the baseline revenue forecast.

- Finalizing review of the investment incentive agreements and exemptions and allow existing investment incentives to expire. This measure could yield an additional 0.5 percent of GDP.

- Improving the progressivity and expanding the base of the Personal Income Tax (PIT), which could yield additional tax revenue between 0.7 to 1.8 percentage points of GDP.

- Exploring adding other commodities to the new excise tax base, including fuel and all imported vehicles, which could yield additional tax revenue of about 0.4 percentage point of GDP.

- Improving discovery and valuation of properties and better enforcement of property tax. Although the potential yield from this measure is unknown at this stage, we recognize the revenue potential and are working to improve collection.

Revenue Administration

46. Given our need to increase domestic revenue, we will improve the operational efficiency of LRA to meet public expectations. In this regard, our priorities are to:

- Establish, for each taxpayer, only one account per tax type, as well as ensure that taxpayers file one return per tax-type.

- Provide and use an Information Technology Tax System (ITAS) that is fit for purpose to support tax administration processes.

- Monitor and publish institutional performance through the established Key Performance Indicators on a quarterly basis.

Social Expenditure

47. We will maintain an adequate level of social spending in our program. While physical capital accumulation, particularly in roads, is a key pillar of our development strategy, in the longer-term human capital development and basic social protection is equally crucial for our development outturn. In FY2020 we are seeking to fully implement the Grant and Subsidy Policy approved in the FY2019 Budget Law, which will be an important step in having key entities in the social sectors directly responsible for targeting limited resources. We have also established ***a floor for social spending as an indicative target under the program*** (defined in the TMU, but concentrated in critical health and education workers, and funding for a school feeding program). We particularly recognize the need to safeguard spending in the education sector, as our level of spending in this area is only about half that in other Sub-Saharan Countries, and the sector is characterized by very low outcomes in terms of enrollment and completion at all school levels. Enhanced support and scaling up of school feeding programs would be particularly effective, as such actions would have the dual benefit of increasing enrollment while also providing needed nutrition to rural children who constitute some of our most vulnerable citizens.

Business Climate

48. We will reduce the high cost of doing business in Liberia. We are committed to reducing administrative procedures to lower costs and delays, and to creating greater efficiency in production, and higher employment and growth. To this end, we have abolished the requirement for import permit declarations and now allow importers to import whatever goods they feel are in their economic interest, subject only to the requirement that they notify the government of pending imports. We also extended the tenor of work permits and residency permits from one to five years. We anticipate significant efficiency gains from these changes, as well as the establishment of greater competition in key retail and wholesale markets. Similarly, we will ensure that the fee charged for importers utilizing the container tracking system is reduced to levels prevailing in neighboring countries.

49. We will adhere to the automatic fuel pricing formula to remove uncertainty for fuel importers and to avoid fuel subsidies. A recent deviation of the fuel price from that implied by the fuel-pricing formula led to heightened uncertainty and fuel shortages as importers reduced their fuel imports to minimize losses. To avoid a repeat of such shortages, the government will ensure that the fuel pricing formula is strictly adhered to when triggers for price adjustment are met.

50. The passage of the Land Rights Act is potentially a big step forward in releasing the productive potential of Liberia's agricultural sector. Liberia has large, exploitable, and sparsely inhabited tracts of land that would be ideal for large-scale cash crop production but, in the past, the difficulty in securing clear title has held back this potential. The new Act mandates a participatory methodology for securing land rights, voluntarily, from traditional holders that would result in unambiguous tenure. The potential is large, and we will operationalize this potential through the drafting and adoption of relevant regulations and guidelines and through stakeholders' consultations.

51. We will establish a regular forum for business and government officials to meet and discuss ways and means of improving the investment and business climate. We will encourage regular frank and open discussions and will also task this group with continually monitoring and implementing steps to improve our ranking under the World Bank's Ease of Doing Business indicators.

52. Under certain conditions, we will consider helping banks discount government-issued bonds to improve their foreign exchange liquidity positions and to fund additional credit. Banks are facing shortages of foreign exchange liquidity, partly because the government arrears were restituted in the form of illiquid bonds (yielding 4 percent coupon payments with principal to be repaid over the next seven years). To increase access to credit, especially to support export-oriented agriculture-based activities in Liberia, banks are considering discounting those bonds using a bond discount facility (BDF) of AFREXIM Bank. While we are sympathetic to this operation, securing the legalities of it will require government intervention, and prudence dictates that we hold back on allowing the operation to proceed until the CBL has finished its planned on-site examinations of the relevant banks. Only those banks that can demonstrate that they will maintain solvency and liquidity levels within regulatory values after the discounting will be allowed to proceed with the operation.

53. In addition to these actions, going forward we will further improve our business climate through:

- Passing the new Customs Code by June 2020, which we expect will significantly improve the business climate by making trade easier, more predictable, and faster.
- Reducing the number of road checkpoints to the minimum required for whatever purpose they are intended for. The excessive number of road checkpoints—currently over 60 between the Sierra Leone and Guinean border—is hampering trade and the efficient movement of goods.
- Delaying the imposition of recent regulations published by the Liberia Agriculture Commodities Regulatory Agency that mandate that all cocoa be sold through state-controlled warehouses at predetermined prices. We will examine these regulations until we can ascertain, with the assistance of our development partners, their impact on the development of this promising industry.
- We will reevaluate the need for businesses to seek ministry of labor's permission before they increase expat staff.

E. Statistics

54. We will continue to work with IMF TA in the following areas to improve the quality of our statistics for effective program monitoring:

- We will pursue improvements to fiscal and debt statistics drawing on recent IMF technical assistance to improve the scope and coverage of statistics, and classifications and comprehensiveness of transactions and stocks. To facilitate this process, the MFDP has obtained a formal memorandum of understanding from all stakeholders, including LRA, CBL, MCC, NASSCORP, and LISGIS, specifying that this information and data sharing can be freely provided to IMF staff.
- We will follow through the recommendations of IMF TA on monetary statistics and financial soundness indicators to ensure that this data is available on a timely basis.
- We will expedite the finalizing the rebasing of GDP by production approach using the results of the National Accounts Annual Survey (NAAS) and administrative data sources for the areas not covered by this survey. Thereafter, we will complete GDP compilation using the expenditure approach.
- We will follow through IMF TA recommendations to further improve price statistics after successfully rebasing the CPI from 2004 to 2016.

PROGRAM ISSUES AND MONITORING

55. The program will be monitored by quantitative performance criteria, structural benchmarks, indicative targets, and semi-annual reviews (Tables 1, 2, and 3). Performance criteria, indicative targets, and structural benchmarks are defined in the technical memorandum of understanding, which also defines the scope and frequency of data to be reported for program monitoring purposes. We expect that the first review under the program will be completed on or after June 1, 2020 based on the end-December 2019 and other relevant performance criteria; and the second review to be completed on or after December 1, 2020 based on the end-June 2020 and other relevant performance criteria.

Table 1. Liberia: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) for the Program Under the ECF Arrangement, 2019–20

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

	Sep. 2019	Dec. 2019	Mar. 2020	Jun. 2020	Sep. 2020	Dec. 2020
	Prel.	PC	IT	PC	IT	IT
Performance Criteria[1]						
Floor on fiscal primary balance[2]	-0.3	-0.7	-1.2	-1.6	5.2	10.4
Ceiling on contracted new non-concessional external debt of the public sector (continuous basis)	100.0	100.0	125.0	125.0	125.0	125.0
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the CBL's operational and capital expenses[3]	27.4	32.9	9.3	14.1	19.4	24.2
Floor on the change in the CBL's net international reserves[3 4]	-22.1	-25.7	2.5	5.0	7.4	9.9
Ceiling on CBL's gross direct credit to central government	487.5	487.5	487.5	487.5	487.5	487.5
Indicative Targets						
Floor on total revenue collection of the central government[2]	84.0	184.0	293.0	414.0	108.5	218.6
Ceiling on new domestic arrears/payables of the central government (continuous basis)	52.0	n.a.	n.a.	0.0	n.a.	n.a.
Floor on social and other priority spending[2]	14.7	29.3	44.0	58.7	14.7	29.3
Floor on on-budget capital spending[2]	2.2	4.3	6.5	8.7	3.1	6.3
Ceiling on net domestic assets of the CBL	220.0	250.3	242.6	223.6	220.7	236.9
Memorandum Item						
Ceiling on disbursement of concessional external debt	30.0	65.0	100.0	130.0	175.0	215.0
Floor on wage bill of school teachers[2]	8.3	16.7	25.0	33.4	8.3	16.7
Floor on wage bill of core and non-core clinical health workers[2]	6.2	12.4	18.6	24.8	6.2	12.4
Floor on spending on home-grown school feeding program[2]	0.13	0.25	0.38	0.50	0.25	0.50

Sources: Liberian authorities and IMF staff estimates and projections.

[1] The Standard Continuous Performance Criteria will also apply: (i) Not to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions; (ii) Not to introduce new or intensify existing multiple currency practices; (iii) Not to conclude bilateral payments agreement that are inconsistent with the IMF's Articles of Agreement (Article VIII); and (iv) Not to impose new or intensify existing import restrictions for balance of payments reasons.

[2] These numbers are cumulative from the beginning of the fiscal year.

[3] These numbers are cumulative from the beginning of the calendar year.

Table 2. Liberia: Prior Actions, 2019		
Prior Actions	**Rationale**	**Status**
Improve Macroeconomic Management		
Approval of a FY2020 fiscal budget fully consistent with the fiscal program discussed with IMF staff, including on detailed expenditure levels and the resource envelope.	Macroeconomic stabilization requires a credible, executable budget with zero recourse to borrowing from the central bank	Done
Resume regular meetings of the Liquidity Management Committee.	Necessary to ensure that budget allocations do not exceed available revenue.	Done
Public Financial Management and Governance		
Improve the quality and frequency of fiscal reporting by: Establishing at least a one-month track record of regular weekly reporting to the Fund—with no more than a 4-day lag—of four fiscal reports (defined in the TMU) that collectively provide a comprehensive and detailed depiction of developments in government budgetary revenue and expenditure. The data in the tables is to be fully reconciled with the movement of funds in and out of government accounts, with discrepancies regularly investigated and reconciled.	Necessary to ensure the ability of the GOL to track financial flows in and out of the central budgetary government; and to increase the quality of expenditure classification in line with GFSM 2001/14.	Done
Restructure the civil service wage bill such that: (i) the wage bill is limited to US$297 million in FY2020; (ii) General and specific allowances are eliminated as forms of compensation, and every employees' civil service salary is their sole source of government-derived wage income; (iii) All employees will have been assigned a registered job title, official pay grade, and registered salary.	The initial correction is needed to create space for other productive expenditure. Removal of discretion and adoption of a rules-based, compensation system. Greater transparency.	Done
Bank supervision		
Implement ELA provisions and enhance monitoring with respect to financial institutions that have overdrawn balances at the CBL as of end-September 2019 by: • Assessing the institutions' eligibility to benefit from the ELA by assessing the institutions' liquidity and solvency position as outlined in the ELA regulation;	To ensure financial sector stability	To be completed within 5 days of the Board meeting

Table 2. Liberia: Prior Actions, 2019 (concluded)		
Improve Central Bank Governance		
• Instituting collateral for the institutions' overdraft; • Instituting relevant government guarantees as outlined in the ELA regulation; and • Putting in place a liquidity monitoring system for institutions that have overdrawn balances at the CBL.		
Finalize the appointment of a firm to co-source the CBL's Internal Audit activity in critical operations based on a term of reference in line with Fund staff advice.	Quality assurance of internal audits.	To be completed within 5 days of the Board meeting
All non-executive Board members are appointed and confirmed in accordance with the current CBL Act.	All the appointment procedures should be in accordance with the current CBL Act.	Done
CBL to incorporate the recommendations of the Kroll Associates report into the CBL Action Plan in a manner consistent with IMF staff recommendations.	To strengthen currency management and reduce fraud risk.	Done
Safeguard Central Bank Foreign Exchange Reserves		
CBL Board to approve revisions to the 2019 CBL operating and capital budget—and indicative targets for 2020 and 2021—sufficient to contain the January-December 2019 cumulative CBL operational and capital spending to US$32.9 million. Measures to include:	To reduce the CBL draw down of foreign reserves to finance its budget.	Done
(i) Reducing the CBL wage bill by the same percentage as the reduction in the civil service wage bill approved in the FY2020 national budget;	An effective expenditure reduction measure and one that indicates solidarity with the civil service and the Executive and Legislative branches of government.	
(ii) aligning the proportion of the wage bill received in local currency with that received by the civil service;	To reduce the CBL draw down of foreign reserves to finance its budget.	
CBL to have established a track record of at least four weeks of production and submission to IMF staff of weekly reports detailing the movement of foreign exchange flows in and out of the CBL. The reports are to be consistent with stock data and prepared in collaboration with IMF staff (¶16).	To enable close monitoring of foreign exchange reserves and to detect deviations from target early.	Done
Sources: IMF staff; and Liberian Authorities.		

Table 3. Liberia: Structural Benchmarks for the Program Under the ECF Arrangement, First and Second Reviews

Structural Benchmark	Target Date	Rationale
Public Financial Management and Governance		
Improve and clean the civil service payroll registry by: (i) Issuing an regulation by end-December 2019 establishing an end-June 2020 deadline for all public employees to have obtained a national biometric identification; (ii) no government worker will be paid without biometric ID from end-June 2020; and (iii) the MFDP to provide a detailed report to IMF staff—with format and content outlined in the TMU—on the scope and impact of the salary suspension by August 15, 2020.	August 15, 2020	Necessary to eliminate ghost workers.
Improve controls of compensation of employees by issuing (or amending) the regulation on hiring of public servants to establish that employment and HR management will be jointly controlled by the CSA and MFDP and that all MACs (except for security sector and integrity agencies) will not be able to complete the hiring process without registering the new hire at the CSA, which will verify and enter the new hire into the automated payroll system only if allotments are available.	End-January 2020	Improve payroll efficiency, record keeping, means of controls, and yield savings.
The 8 largest State-Owned Enterprises (SOEs) to provide quarterly reports--with content as defined in the TMU—of their financial performance for FY2019Q1-Q4 and FY2020Q1 to the SOE Unit at the Ministry of Finance by end-March 2020 and these be shared with IMF staff by end-April 2020; and (ii) the SOE Unit to prepare and share with IMF staff by end-May 2020 a comprehensive report based on this data in a format defined in the TMU.	End-May 2020	Enhance transparency of major revenue source.
Complete the inventory and rationalize bank accounts with the CBL and commercial banks, which will entail: i) review and refine the policy restricting the number of bank accounts held by MACs; ii) complete the stock-taking exercise of bank accounts; iii) instruct MACs to close their bank accounts at commercial banks and transfer balances to the CBL (excluding donor funded projects, salaries funding accounts and revenue collection accounts); iv) the CBL to set up bank accounts following the closure of MACs bank accounts and transfer of cash balances to the CBL by commercial banks; and v) supply a list of bank accounts that remain at commercial banks to IMF staff along with a rationale for their continued existence.	End-June 2020	A preparatory measure to prepare for eventual adoption of a treasury single account.

Table 3. Liberia: Structural Benchmarks for the Program Under the ECF Arrangement, First and Second Reviews (concluded)

Structural Benchmark	Target Date	Rationale
Improve Governance at the Central Bank of Liberia		
Submit the amendments to the CBL Act consistent with Fund staff advice to the National Legislature to strengthen the CBL's mandates, autonomy, decision-making structures, and transparency and accountability, in line with IMF staff recommendations.	End-March 2020	Promotion of greater CBL independence
Fully implement the priority actions of the updated CBL Action Plan in line with revised due dates.	Quarterly updates starting with End-March 2020	Strengthen the CBL's operations and governance
Strengthen Anti-Corruption Measures		
Submit to the National Legislature amendments to the anti-corruption and penal laws to upgrade the anti-corruption framework in line with the UNCAC, including by criminalizing illicit enrichment and the bribery of foreign officials and to establish a special fast-track process for prosecuting corruption.	End-September 2020	Improve governance and reduce corruption vulnerabilities.
Sources: IMF staff; and Liberian Authorities.		

Attachment II. Technical Memorandum of Understanding

A. Introduction

1. **This memorandum sets out the understandings between the Liberian authorities and the International Monetary Fund (IMF)** regarding the definitions of the quantitative performance criteria (QPCs) and indicative targets (ITs) for the program supported by the Extended Credit Facility (ECF) arrangement, as well as the related reporting requirements. It also describes the methods to be used to assess the program performance and the information requirements to ensure adequate monitoring of the targets. The authorities will consult with the Fund before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the program, and provide the Fund with the necessary information for program monitoring. Unless otherwise specified, all QPCs and indicative targets (ITs) will be evaluated in terms of cumulative flows from the beginning of the period.

B. Program Exchange Rates

2. **For the purpose of the program, foreign currency denominated values for 2019 will be converted into Liberian currency (Liberian Dollar)** using a program exchange rate of LD 211.50/US$ and cross rates as reported in the IMF's International Financial Statistics as of October 31st, 2019. and reproduced below in Table 1.

Table 1. Liberia: Program Exchange Rates
(As of end-October 2019)

Currency	Currency Units Per SDR	Liberian Dollars Per Currency Unit	US dollars Per Currency Unit
US dollars	1.38	211.50	1.00
British Pound Sterling	1.06	274.09	1.30
Japanese Yen	150.12	1.94	0.01
Euro	1.24	235.90	1.12
SDR	1.00	291.74	1.38

C. Definitions

Quantitative Performance Criteria (QPC)

3. **For the purpose of the program, the *Government* is defined as the budgetary central government of Liberia (GoL)**. It excludes extrabudgetary units of the central government, public nonfinancial corporations, public financial corporations, social security funds, and local government. The operations of the budgetary central government will be presented in U.S. dollars with all

revenues and expenditures that are denominated in Liberian dollars converted at the period average exchange rate.

4. **The *budgetary central government* is defined as central government entities with budgets covered by the main budget controlled by the Ministry of Finance and Development Planning**. The coverage includes on-budget operations and off-budget transactions managed by these entities.

5. **The revenue collection of the budgetary central government includes all tax and non-tax receipts transferred into the GoL revenue accounts at the CBL for the relevant fiscal year**, including income and transfers from state-owned enterprises and public institutions, as well as budget support loans and grants. Tax revenue includes taxes on income, profits, capital gains, goods and services, international trade, and other taxes (including property tax and social contribution by foreign concessions). Non-tax revenue includes property income (dividends and interest income, royalty and rent, and assets sales), administrative fees, fines, penalties and forfeits, as well as other non-tax revenue (voluntary transfers and other grants, sales of other goods and services, withholding on other payments by government (non-resident), and taxes on financial and capital transactions. External loans and grants for off-budget projects managed by the budgetary central government are excluded unless otherwise stated. For the purposes of the program, revenue is measured in U.S. dollars, with GoL revenue account receipts in Liberian dollars converted to U.S. dollars using the period average exchange rate.

6. **The public sector is defined as the general government (which includes the central government, local government and social security funds), public nonfinancial corporations and public financial corporations**. Public corporations are defined as resident institutional units controlled by government, or another public corporation, that are principally engaged in the production of market goods or services. Control of a corporation is defined as the ability to determine general corporate policy of a corporation. General corporate policy is understood in a broad sense to mean the key financial and operating policies relating to the corporation's strategic objectives as a market producer. A market producer is an institutional unit that provides all or most of its output to others at prices that are economically significant.

7. **The definition of *public external debt* (both concessional and non-concessional), for the purposes of the program, refers to the debt of the central Government** (as defined in paragraph 3) owed to non-residents, and it applies not only to the meaning set forth in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014 (Annex I), but also to commitments contracted or guaranteed for which value has not been received. External debt is considered as contracted for program monitoring purposes once all conditions for its entrance into effect have been met, including ratification, if required. External debt is considered guaranteed when all the

conditions for entry into effect, including ratification, have been met for both external debt and the guarantee.

8. Quantitative performance criteria are proposed for December 31, 2019, and June 30, 2020 with respect to:

- Primary fiscal balance (**floor**),
- New arrears on public external debt (ceiling),
- New non-concessional public external debt contracted or guaranteed (ceiling),
- CBL's operational and capital expenditure (ceiling),
- CBL's net international reserves (floor), and
- CBL's gross direct credit to government (ceiling).

Primary Fiscal Balance

9. A floor applies to the cumulative flow of the primary fiscal balance since the beginning of the fiscal year, which runs from July 1 to June 30. The primary fiscal balance relates to revenue and expenditure of the budgetary central government (as defined in paragraph 4). For the purpose of monitoring the program and QPCs, the focus is on on-budget operations only, and the primary balance used is defined as being equal to the difference between revenue excluding budget-support grants and loans and expenditure net of interest payments (including on-budget gross investment in nonfinancial assets). Revenue is defined as all revenue collected by the LRA. Expenditure is measured on a commitment basis. For non-payroll expenditures, commitment happens when a payment voucher has been issued following receipt of goods or services. A future obligation to pay is subject to fulfillment of a contract or service delivery and thus is distinguished from commitment. For payroll expenditure, commitment is when the payment is approved. The primary fiscal balance used for the debt sustainability analysis is calculated using revenue and expenditure of the budgetary central government including off-budget transactions.

Adjuster: If the sum of cumulative budget support grants and concessional budget support loans received up to the relevant quarter in FY2019/20 exceeds the amounts stated in Table 2 below, the floor for the primary fiscal balance excluding grants in that quarter will be adjusted downward by the amount of the excess. The criteria in paragraph 12 will be used to determine whether a loan is concessional or non-concessional.

Table 2. Liberia: Adjustor to the Primary Balance Excluding Grants, FY2020 (Millions of U.S. dollars, Cumulative)				
	FY2020Q1 Outturn	FY2020Q2	FY2020Q3	FY2020Q4*
Budget support	0.0	6.0	46.0	61.0
Primary fiscal balance excluding grants	28.9	21.9	-2.3	0.0
*As reported at end-September after full reconciliation of the fiscal year.				

New Arrears on Public External Debt

10. A zero ceiling applies on payment arrears on public external debt. Public external debt is defined in paragraph 7. For the purpose of the ceiling on the accumulation of external payment arrears, external payment arrears will accrue when undisputed payments such as interest or amortization on debts of the Government (as defined in paragraph 3) to non-residents are not made within the terms of the contract (taking into account any contractual grace periods). This criterion excludes arrears arising from external payments obligations being renegotiated with creditors and arrears on debts in dispute. The source of the data is primarily the Debt Management Unit of the Ministry of Finance and Development Planning, but where information gaps arise, other fiscal and monetary sources will be used to reconcile the data. This performance criterion will be monitored on a continuous basis.

New Non-Concessional Public External Debt Contracted or Guaranteed

11. A continuous ceiling applies to the contracting and guaranteeing by the public sector of new non-concessional external debt. Public external debt is defined in paragraph 7.

12. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent. Loans provided by a private entity will not be considered concessional unless accompanied by a grant or grant element provided by a foreign official entity, such as both components constitute an integrated financing package with a combined grant element equal to at least 35 percent.

13. Non-concessional public external debt is external debt (as defined in paragraph 7) that does not meet the definition of concessionality defined in paragraph 12. External debt and its concessionality will be reported by the Debt Management Unit of the Ministry of Finance and Development Planning and will be measured in U.S. dollars at current exchange rates.

CBL's Operational and Capital Expenditure

14. A ceiling applies on the operational and capital expenditure of the CBL. For the purposes of the program, the CBL's operational and capital expenditure budget is defined as the sum of total operating expenses and capital expenditure excluding the interest paid on CBL instruments and facilities. The budget is measured in U.S. dollars, with all Liberian dollar expenditure converted at the period-average exchange rate.

CBL's Net International Reserves

15. *Net international reserves* of the CBL are defined as the difference between gross official reserve assets and gross reserve liabilities. 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 at the program exchange rate (Table 1). Other currencies are valued at cross rates against the U.S. dollar using the program exchange rates (Table 1).

16. *Gross official reserve assets* of the CBL include the following: (i) monetary gold holdings; (ii) holdings of SDRs; (iii) the reserve position in the IMF; (iv) foreign convertible currency holdings; (v) foreign currency denominated deposits held in central banks and other investment-grade banks and institutions abroad (vi) loans to foreign banks of investment-grade redeemable upon demand; (vii) investment-grade foreign securities and (viii) other unpledged convertible liquid claims on non-residents. It excludes the following: (i) any foreign currency claims on residents; (ii) Resident banks' foreign currency assets held at the CBL; (iii) capital subscriptions in international institutions; (iv) foreign assets in nonconvertible currencies (v) mutilated foreign currency bank notes in vault and in transit; (vi) gross reserves that are in any way encumbered or pledged, including, but not limited to (a) assets blocked when used as collateral for third-party loans and third party payments or pledged to investors as a condition for investing in domestic securities; (b) assets lent by CBL to third parties that are not available before maturity and are not marketable; (c) assets blocked for letters of credit; (d) assets ring-fenced in accordance with guarantees.

17. Gross reserve liabilities of the CBL are defined as sum of the following (i) outstanding liabilities of the CBL to the IMF; (ii) all short-term foreign currency liabilities of the CBL to non-residents with an original maturity of up to, and including, one year, and (iii) all foreign currency deposits of the government with the CBL. SDR allocations are excluded from gross reserve liabilities of the CBL.

18. For the purpose of calculating the QPC on NIR, end-of-the-month foreign exchange numbers audited by the Internal Audit Department of the CBL will be used, except for IMF accounts numbers (i.e., Reserve tranche position, SDR holdings, and Use of Fund resources will be taken from IMF records).

CBL's Gross Direct Credit to Government

19. A ceiling applies on the CBL's gross direct credit to the Central Government (as defined in paragraph 3). CBL gross direct credit to the Government is the sum of all claims on the government in local and foreign currency. It includes loans to the Government in local currency including all suspense accounts, loans to the Government in foreign currency including all suspense accounts, securities in local currency (other than shares), securities in foreign currency (other than shares), negative balances (overdrafts) on deposits of the central government in local currency including "other deposits", negative balances (overdrafts) on deposits of the central government in foreign currency including "other deposits", and all other claims on the government in local currency.

Indicative Targets

20. The program sets indicative targets for December 31, 2019, and June 30, 2020 with respect to:

- Total revenue collection of the budgetary central government (**floor**),
- New domestic arrears/payables of the budgetary central government (**ceiling**),
- Social and other priority spending (**floor**),
- On-budget capital spending (**floor**), and
- Net domestic assets of the CBL (**ceiling**).

Total Revenue Collection of the Budgetary Central Government

21. For the purpose of the indicative target on revenue collection, total revenue is the revenue collection of the budgetary central government (as defined in paragraph 5) including budget support loans and grants.

New Domestic Arrears/Payables of the Budgetary Central Government

22. A ceiling applies on new domestic arrears/payables of the government and is 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 90 days from the end of the fiscal year. Actual payments are defined as having taken place on the date of issuance of the checks by the Ministry of Finance and Development Planning. 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. Accounts payable is defined as the difference between expenditure on commitment and cash basis.

Social and Other Priority Spending

23. For end-December 2019 and end-June 2020, social spending is defined as education, health, and social development services. Education, health, and social spending consist of the payments from the FY2019/20 budget of the units listed in Table 3 (payment vouchers approved by the Ministry of Finance and Development Planning).

Table 3. Liberia: Social and Other Priority Spending

Sector	Payment voucher items
Education	Total wage bill of teachers by subsector (early childhood, primary, junior high, and senior higher).
	Spending on home-grown school feeding program.
Health	Total wage bill of core clinical health workers (physician, physician assistant, midwife, registered nurses) and noncore clinical health workers (clinical support, EHT, dentist, lab technician and pharmacist).

On-Budget Capital Spending

24. On-budget capital spending is defined as gross investment in nonfinancial assets as stated in the budgetary central government statement of operations table. It excludes off-budget projects. The indicative target is based on the annual gross investment and will be tested in June 2020 based on gross investment over FY 2019/2020.

Net Domestic Assets of the CBL

25. The *net domestic assets* of the CBL are defined as monetary base expressed in U.S. dollars minus the net foreign assets of the CBL (converted into U.S. dollars at program exchange rates). The following definitions apply:

- *Monetary base* expressed in U.S. dollars is defined as monetary base expressed in Liberian dollars divided by the Liberian dollar/USD exchange rate published by the CBL for the relevant test date.

- *Monetary base* expressed in Liberian dollars is defined as the stock of Liberian dollars in circulation (including vault cash of ODCs in Liberian dollars) plus reserve deposits of ODCs at the CBL in both Liberian dollars and U.S. dollars.

- The *net foreign assets* of the CBL are expressed in U.S. dollars and are defined as foreign assets of the CBL minus foreign liabilities of the CBL.

- *Foreign assets* of the CBL are defined as the sum of *gross reserves* and *other foreign assets*. Gross reserves are gross official reserve assets (as defined in paragraph 16) but include: (i) any foreign currency claims on residents; and (ii) Resident banks' foreign currency assets held at the CBL. Other foreign assets include but not limited to foreign currency trade credit/ advances of non-resident.

- *Foreign liabilities* of the CBL are defined as the sum of *short-term foreign liabilities* and *other foreign liabilities*. Short-term foreign liabilities include but not limited to the use of Fund credit and loans. Other foreign liabilities include but not limited to other foreign currency loans to nonresidents and SDR allocation.

D. Data Reporting

26. To allow monitoring of developments under the program, the Ministry of Finance and Development Planning and the CBL will coordinate and regularly report the information requested in Tables 4 and 5, below, to the staff of the IMF.

Table 4. Data Reporting Requirements for Program Monitoring			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
MFDP	The report on the status of implementation of the performance criteria and structural benchmarks specified in Tables 1 and 3 of the MEFP	Monthly	Within three weeks after the end of the month
	Fiscal		
MFDP	Monthly fiscal reconciliation reports, where cash revenue and expenditure with spending commitments are reconciled	Monthly	Within three weeks after the end of the month
LRA	Daily LRA unreconciled revenue performance report	Daily	Within three days
MFDP	Detailed reports on monthly 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
MFDP	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
MFDP	A detailed report on monthly social spending lines monitored for the program purpose on commitment and cash basis	Monthly	Within three weeks after the end of the month
MFDP	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
MFDP	Outstanding appropriations, allotments and commitments, and disbursements for line ministries and agencies	Monthly	Within three weeks after the end of the month
MFDP	Weekly cash plan report detailing: i) weekly revenue and expenditure cash flows, including opening balance of revenue account, cash inflows, cash outflows, sources of financing, surplus/deficit, outstanding checks, and net of closing bank balance and outstanding checks; ii) monthly cash plan for the remaining of the fiscal year	Weekly	Within five days after the end of the week

Table 4. Data Reporting Requirements for Program Monitoring (continued)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
MFDP	Weekly fiscal report detailing: i) summary of budget expenditure on allotment, commitment, cash basis, and liabilities by economic code; ii) detailed budget execution; iii) cumulative revenue and expenditure by currency; iv) expenditure by Ministries and Agencies	Weekly	Within five days after the end of the week
CBL	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
CBL	The CBL's claims on and liabilities to Central Government by account: i.e., 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
CBL	The CBL's claims on and liabilities to Public Nonfinancial Corporations by account: i.e., end-of-month balances of all operating and other accounts at the CBL of all public nonfinancial corporations	Monthly	Within three weeks after the end of the month
MFDP	Quarterly reports of state-owned enterprise financial operations submitted to the Ministry of Finance and Development Planning	Quarterly	Within 45 days after the end of the quarter
Balance of Payments and Public External Debt			
CBL	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
CBL	Remittance flows for money transfer operators (MTOs) and commercial bank wire. Data to be reported as gross inflows and gross outflows for each component.	Monthly	Within three weeks after the end of the month
MFDP	The amount of new external debt contracted or guaranteed by the Government, as well as projects in the pipeline or cancelled	Monthly	Within three weeks after the end of the month
MFDP	The amount of new domestic debt contracted or guaranteed by the Government	Monthly	Within three weeks after the end of the month

Table 4. Data Reporting Requirements for Program Monitoring (continued)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
MFDP	A detailed report on monthly disbursement of external debt by loan, category and creditors; and distinguishing between loan and grant components in cases of projects with mixed funding modalities	Monthly	Within three weeks after the end of the month
MFDP	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
MFDP	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
Monetary and Exchange Rate			
CBL	The end-of-month balance sheet of the CBL (1SR) and the Central Bank Survey (1SG)	Monthly	Within three weeks after the end of the month
CBL	The end-of-month balance sheet of the other depository corporations (ODCs) (2SR) and the Other Depository Corporations Survey (2SG)	Monthly	Within three weeks after the end of the month
CBL	The Depository Corporations Survey (3SG)	Monthly	Within three weeks after the end of the month
CBL	CBL cash budget weekly outturn relative to forecast following the template provided below	Weekly	Within five days after the end of the week
CBL	A full set of monthly Financial Soundness Indicators (FSIs) regularly calculated by the CBL, including capital adequacy, profitability and liquidity ratio.	Monthly	Within three weeks after the end of the month
CBL	The income statements of ODCs as reported to the CBL	Monthly	Within three weeks after the end of the month
CBL	The detailed table of commercial banks' loans and advances by sector	Monthly	Within three weeks after the end of the Month

Table 4. Data Reporting Requirements for Program Monitoring (continued)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
	Foreign Exchange and Reserve Assets		
CBL	Daily reporting of gross foreign exchange inflows and outflows and their components: inflows to GOL accounts (revenue accounts, off-budget revenue accounts, clearing accounts); inflows to ODC accounts by types of transactions (final, interbank, clearing / settlement and others); inflows to CBL accounts (interest income, surrender purchases, FX interventions, other inflows); outflows from GOL accounts (on-budget expenditure, off-budget expenditure, clearing accounts); outflows from ODC accounts (withdrawals, clearing, and others); and outflows from CBL accounts (recurrent payments, other payments, FX interventions). Daily reporting of other memo items: total inbound remittances through MTOs, the exchange rate for surrender purchases, published indicative buying and selling rates.	Weekly	Within five days after the end of the week
CBL	Daily foreign exchange transactional level data	Weekly	Within five days after the end of the week
CBL	Internal Audit Department (IAD)'s verification report on foreign exchange (random check on the accuracy of the daily data at least five times a month, plus on the last day of each month	Monthly	Within five days after the end of the month
CBL	Daily reporting for monetary operations and accounts of the ODCs at the CBL: Standing Deposit Facility (SDF) (outstanding, requested, recalls, SDF interest rate); Standing Credit Facility (SCF) (outstanding, SCF interest rate); CBL bills (outstanding, maturing, and the amount, tenor and average interest rate of new CBL bill issuances); ODC accounts at the CBL (the average reserve maintenance period (RMP), reserve requirement for RMP, and excess reserves in foreign currency and those in local currency); and currency in circulation (CIC) (currency issuance, currency redemption, USD withdrawal, USD deposit).	Weekly	Within five days after the end of the week

Table 4. Data Reporting Requirements for Program Monitoring (concluded)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
CBL	CBL FX auctions summary of bids and bidders, including data on: number of participants (commercial banks and clients); maximum bid rate and volume; minimum bid rate and volume; average bid rate; largest transaction size (client and commercial bank); smallest transaction size (client and commercial bank)	Weekly	Within five days after the end of the week
CBL	Amounts offered, demanded and placed in Government of Liberia Treasury bill/ Treasury bond auctions; including minimum bid rate and amount, maximum bid rate and amount, and weighted average bid rates.	Monthly	Within one week after the end of month
CBL	Interest rates: average monthly interest rates on loans and deposits	Monthly	Within three weeks after the end of month
CBL	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 three weeks after the end of month
Real			
CBL	Production data in value and volume	Quarterly	Within six weeks after the end of the quarter

27. **The above data and reports will be provided 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.

28. **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**.

29. In addition to this summarized table, the CBL will also provide detailed balance sheet data to IMF staff when requested.

Table 5. Reporting Requirements for the CBL's Cash Budget

	Week 1		**Week 2**		**...**
	Budget	**Actual**	**Budget**	**Actual**	**...**
Income					
Interest income					
o/w from GOL					
Other income					
Expenditure					
Current expenditure					
Personnel costs					
o/w in Liberian Dollar					
Other expenses					
o/w in Liberian dollar					
interest payments					
Capital expenditure					
o/w currency printing					
In Liberian dollar					

Attachment III. Central Bank of Liberia (CBL) Action Plan: Priority Items

November 15, 2019

	Action	Responsible Party	Due Date	Status / Comment
Governance of the CBL				
1	Amendments to the CBL Act to be submitted to the Legislature. The proposed amendments will take into consideration recommendations in Annex II of the 2015 IMF Safeguards Assessment report and forthcoming technical assistance from the IMF Legal Department. Amendments to include changes to the legal framework for the CBL's Internal and External Audits (which are to be revised to bring the relevant section in the CBL Act (Section 46) into line with international good practice).	BOG	Revised CBL Act to be submitted to Legislature by end-March 2020	**In progress (SB)**. A CBL Task Force, in collaboration with an IMF TA Mission has reviewed the CBL Act and several amendments proposed thereto. Amendments to the CBL Act have been validated by stakeholders, and approved by the Board of Governors. The draft amended Act shall be submitted to the President and for onwards submission to the National Legislature in the first quarter of 2020 for consideration and passage into law.
2	The annual and interim financial statement disclosures of the CBL to be enhanced to:	Finance Department (FD)		
	(i) explain the movements and composition of balances, including information on the terms and conditions of key financial instruments, and maintain internal consistency of notes; and		Starting with 2019 Financial Statement	**Not started**.
	(ii) establish month-end closing procedures. This should include formalization of closing procedures, prompt clearance and review of suspense accounts, and analytical reviews of significant positions.		End-December 2019	**Not started**.

3	In line with the Enterprise Risk Management Policy, submit quarterly compliance reports to BOG with details of deviations from CBL's policies and procedures, as well as stated regulatory requirements.	BOG / ERMD	30 days after the end of the quarter beginning with a report for 2019 Q4	**Completed**. This mechanism is contained in the Enterprise Risk Management Policy, which was approved by the Board. **Re-opened**. Compliance reports need to be submitted to and discussed by the BOG.
Internal Controls of the CBL				
4	Enhance reporting practices on foreign exchange withdrawals through (i) compilation of reports on foreign exchange withdrawals from the CBL and timely submission of these reports to the BOG monthly; and (ii) semi-annual external audits on the foreign exchange reserves of the CBL	FD	Starting with the report for November 2019. Within six weeks after every six months	**In progress**. The FD produces daily FX reports on a weekly basis. These reports will be presented to the Board monthly. KPMG auditing the January-September 2019.
5	The IAD to work with the co-sourcing internal firm to strengthen the capacity of its staff to conduct full risk-based auditing.	BAC	Quarterly, beginning with 2019 Q4 report.	**Near completion (PA)**. Co-sourcing internal audit firm will be in place for the internal audit of 2019 Q4.
Bank Supervision				
6	Complete an on-site examination of financial institutions that have overdrawn balances at the CBL as of end-September 2019. Appoint a reputable external auditor to review findings of on-site examinations.	RSD	End-November 2019 End-December 2019	**Completed**. **In progress**.
7	Conduct a detailed assessment of credit underwriting standards across banks and provide an assessment of credit quality and adequacy of provisioning based on banks' internal data. If the picture is unclear after this assessment, conduct an Asset Quality Review (AQR).	RSD	End-June 2020 End-December 2020	**In progress**. **Not started**.

8	Introduce a Special Resolution Regime (SRR) that enables the resolution of banks that are considered nonviable, or likely to become nonviable in the near future, without systemic disruption and without exposing taxpayers to loss. In particular:			The RSD developed a draft Crisis Management Framework and shared a copy with Afritac West, II for assistance. The RSD has received their comments/inputs and has incorporated those comments and is also conducting further research based on their advice. However, the finalization of the framework is dependent on the amendment of the New FIA.
	(i) Submit to the Legislature amendments to the Financial Institutions Act of 1999 that seek to anchor the SRR in legislation and provide the CBL with a broad range of powers for dealing with distressed banks. In addition, the revised FIA will include legal provisions to enable the CBL to impose additional liquidity buffers set at the level of the individual banks;	Legal Counselor	End-September 2020	The CBL has however commenced the revision of the New FIA of 1999 and is expected to submit a zero draft to the management for revision at the end of November 2019.
	(ii) Approve operational guidelines, policies and manuals needed for the effective functioning of the SRR; and	BOG	End-December 2020	The CBL has not responded to IMF staff's desk review of the FIA conducted in October 2018.
	(iii) Establish the necessary institutional capacity (including via the establishment of an organizational unit that is tasked with the development and execution of effective resolution strategies), including ensuring that the emergency liquidity assistance (ELA) and resolution frameworks remain effective in providing a backstop for any emergent weaknesses in the financial sector.	RSD	End-March 2021	

9	Strengthen the current compliance-based regime for imposing supervisory corrective measures in response to legal violations, breaches of CBL directives, unsafe and unsound practices or other actions, or inaction, from banks that may jeopardize the interests of depositors. The process will achieve compliance with Basel Core Principles #11 and include the following key elements: (i) capacity to be proactive in addressing unsafe and unsound practices at supervised entities; (ii) A system to monitor and evaluate whether the measures are sufficiently effective to induce compliance and ensure effective enforcement of the legal and regulatory framework; and (iii) a system to escalate corrective actions based on the severity of the unsafe and unsound practices and willingness of the regulated entity to comply in a timely manner.	RSD	End-March 2020	**Not started**. The CBL's action in recent times to impose fines on banks demonstrates its resolve to do this. There are adequate and comprehensive sanctions regime in place to address this. A Regulation on Supervisory Intervention which reinforces zero tolerance for regulatory breaches has been developed, approved by the BoG and issued to the banks.
Cash Currency Management				
10	Improve inventory management of cash by ensuring that: (i) all vault stock movements are recorded by the vault coordinator, and (ii) all vault stocks are recorded in the system immediately on receipt.	Banking Department (BD)	End-November 2019	**Not started**.
11	Improve data collection and reporting by: (i) keeping records on daily basis, both in numbers of notes and value; and (ii) recording by denomination and level of fitness (new, fit, unfit);	BD	End-December 2019	**Not started**.
12	Develop a methodology for forecasting future demand for bank notes by denomination, including by setting benchmark stocks against which to measure the risk of currency shortage.	BD	End-June 2020	**Not started**.

13	Destroy unfit notes to create space in the operational vaults, mitigate risks, and better and more accurately reflect circulation figures.	BD	On-going starting with end-December 2019	**In progress**.
14	Transfer currency held at waterside reserve vault to the reserve vault at the CBL where security and the environment are better and discontinue the use of Waterside reserve vault.	BD	End-December 2019	**Not started**.
15	Enhance control of access to restricted areas by: (i) always enforcing swiping device on the door linking banking hall teller unit and vault, and (ii) install swiping devices on entrance to each teller unit.	BD	End-June 2020	**In progress**.
16	Set up a dual control security strategy. One example may be by implementing two door lock-system.	BD	End-December 2020	**In progress**.
17	Improve vault security by: (i) limiting access to vault area to the currency unit only; (ii) limit to currency unit use the additional vault for currency unit only; (iii) cleaning up the area of the currency destruction machine by removing stationary to a different room.	BD	End-December 2019	**In progress**.
18	Submit the emergency procurement request to the Legislature to ensure printing of sufficient Liberian dollar banknotes.	BOG / Ministry of State	End-January 2020	**In progress**
	Ensure an open tender process for the design and / or printing and supply of any Liberian dollar banknotes that occurs after the emergency procurement request, based on a tender template with clearly defined timelines and technical and other requirements and allowing for multiple bidders to participate.		Continuous	Th CBL to request technical advice if needed.

Attachment IV. Regularization of Central Bank Credit to Government, 2019 (Draft)

Consolidation Debts between the Government of Liberia and the Central Bank of Liberia

Agreement signed [November XX, 2019]

Entered into force [November XX, 2019]

AGREEMENT BETWEEN THE CENTRAL BANK OF LIBERIA AND THE GOVERNMENT OF LIBERIA REGARDING THE CONSOLIDATION AND RESCHEDULING OF CERTAIN DEBTS OWED TO THE CENTRAL BANK OF LIBERIA

The Central Bank of Liberia (The "CBL") and the Government of Liberia (The "GOL") agree as follows:

ARTICLE I

Application of the Agreement

1. The CBL and GOL hereby agree to consolidate and reschedule the total debt in Liberian Dollars (LD) and United States Dollars (USD) owed the CBL by the GOL as of October 31, 2019 as provided in this Agreement.

ARTICLE II

Whereas,

1. This Agreement is effective from the date it enters into force until the remaining balance of the consolidated debt, as provided in this Agreement, is repaid in full;

2. This Agreement will replace existing Loan Agreements, Memoranda of Agreement or other signed documentation that outlined terms and conditions of such loans listed below at the inception of those agreements;

3. This Agreement, as otherwise stated hitherto, will treat with the claims of the CBL on the GOL that do not currently have existing agreements; resulting in the consolidation of CBL claims on the GOL into a single agreement called the GOL Consolidated Loan.

4. This Agreement must be read alongside the Schedules I-II, as appended to this Agreement.

ARTICLE III

Definitions

1. "CBL Loans" means the following claims of the CBL on the GOL for the outstanding amounts as specified (See Schedule I for further details).

    (i) CBL Bridge (2019) Loan;

    (ii) IMF Reconciliation Balance;

    (iii) Extended Credit Facility Loan (2014) for Budget Support;

    (iv) Rapid Credit Facility Loan (2015) for Budget Support;

    (v) Extended Credit (2016) for Budget Support;

    (vi) CBL Restructured Capital Notes;

    (vii) CBL Long-term Loan;

    (viii) Obligation Escrow Accounts; and

    (ix) Other Claims.

2. "GOL Consolidated Loan" means the sum of the outstanding claims of the CBL on the GOL as at October 31, 2019 as provided in Schedule I and provided by the CBL as verified claims as provided by its external auditors.

3. "Loan Principal" is the principal value of the GOL Consolidated Loan as of the date of consolidation.

4. "Loan Interest" means interest on the GOL Consolidated Loan due and payable in accordance with the terms of this Agreement.

5. "Remaining Balance" means the sum of (i) any undue installments of the Loan Principal; (ii) any due but unpaid principal payment of the Loan Principal and (iii) any due but unpaid payments of the Loan Interest.

6. "Fiscal year" means the calendar for government budgetary cycle beginning in July of the current year and ending in June of the following year.

ARTICLE IV

Terms and Conditions of Payment

1. The GOL agrees to repay the GOL Consolidated Loan in accordance with the following terms and conditions:

   (a) The amount of the Consolidated Debt to be represented by the GOL Consolidated Loan is [US$436,358,101.87]. The amount of debt denominated in Liberian Dollars shall be converted to United States Dollars at the prevailing exchange rate as of October 31, 2019 and as published as the reference exchange rate by the CBL.

   (b) The Loan Principal shall be repaid in one hundred and eighty [180] equal and consecutive monthly installments of [US$2,424,212.00], commencing on [30 January 2029], until the Loan Principal is repaid in full.

   (c) The interest rate for the Loan Interest shall be four percent per annum.

   (d) The Loan Interest shall accrue daily on the Remaining Balance and be paid monthly. The first Loan Interest is payable 30 calendar days after the Agreement enters into force, and thereafter, on a 30-day calendar cycle. The calculation of the Loan Interest is on the basis of a 360-day count.

   (e) For the avoidance of doubt, accrual of the Loan Bond Interest shall not start on part of the amount of the Loan Principal attributed to the claims defined as the Extended Credit Facility Loan (2014) for Budget Support; Rapid Credit Facility Loan (2015) for Budget Support; and Extended Credit (2016) for Budget Support; until the due date for such amounts, as per Schedule II.

   (f) The accrual of Loan Interest on the claims indicated in (e) shall commence on the due date of such amount and Loan Interest payment determined using the calendar days from the due date up to the next payment date for Loan Interest.

   (g) For the avoidance of doubt, interest shall continue to accrue at the rate specified in paragraph (d) on (i) any due but unpaid portion of the Loan Principal; and (ii) any due but unfulfilled payments of the Loan Interest. Any payment by the GOL shall first be applied to reduce the balance of (i) and (ii) if there is any such balance.

   (h) For the avoidance of doubt, the Remaining Balance shall constitute a CBL claim on the GOL.

2. The GOL Consolidated Loan is payable in United States Dollars. However, at the discretion of the CBL, the CBL can receive any payment in Liberia dollars. The amount payable by the GOL

shall be converted to Liberia dollars at the prevailing exchange rate applicable on the payment date and as published as the reference exchange rate by the CBL.

3. The CBL is authorized to debit the respective GOL Account as a means of receiving the payments on the GOL Consolidated Loan. If the settlement date for the Loan Interest payment or amortization of the Loan Principal falls on a non-business day, the CBL shall receive the payment on the next subsequent business day.

4. The CBL shall issue a confirmation to the GOL upon the receipt of each payment of Loan Interest and Loan Principal repayment.

5. The CBL shall send a copy of the confirmation of payment and a report on the Remaining Balance as of the date of confirmation to the International Monetary Fund.

ARTICLE V

1. Any change of the terms and conditions, as outlined in the Articles of this Agreement, must be effected in writing and a new agreement, reflecting the agreed changes, be duly signed by the relevant parties.

2. Both parties to this Agreement may immobilize, using the Central Securities Depository, the Remaining Balance of the Consolidated Loan at any time when the Agreement is in force. Whereas the Consolidated Loan converts to a GOL security, all terms and conditions of payment for the Consolidated Loan shall remain as specified in Article IV, above.

3. Any changes to the Articles of this agreement shall be communicated to the International Monetary Fund by the CBL prior to the new agreement coming into force.

Signed on ____________________ by ____________________________________,

________________________________, on behalf of the Ministry of Finance;

AND

Signed on ________________________ by _____________________________,

______________________________, on behalf of the Central Bank of Liberia.

INTERNATIONAL MONETARY FUND

LIBERIA

November 26, 2019

REQUEST FOR A FOUR-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of [October 31], 2019)

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

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

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	123.98	100.00
Holdings	145.5	117.36

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF loans	32.30	12.50
ECF arrangements	116.56	45.11

Latest Financial Arrangements:

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

[1]Formerly PRGF.

Projected Payments to Fund

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

	Forthcoming				
	2019	2020	2021	2022	2023
Principal	3.25	20.04	22.97	26.28	27.32
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	3.25	20.04	22.97	26.29	27.32

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

Delivery of Debt Relief at the Completion Point:

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

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

Implementation of Catastrophe Containment and Relief (CCR):

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

[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.

[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.

Safeguards Assessment

The 2019 safeguards assessment, which is substantially completed, notes a significant deterioration in the governance and control frameworks of the CBL. The lack of a permanent Board for almost two years and changes to the Governor, both Deputy Governors, and senior management have impacted the CBL's governance and accountability. In addition, the financial position of the CBL has deteriorated following the extension of credit to government in excess of legal limits and new risks have emerged in domestic currency operations as highlighted in the recent external investigation reports. Going forward, fundamental steps are needed to address these vulnerabilities. To this end, many of the priority recommendations have been included as structural measures under the new arrangement

Exchange Rate Arrangement

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

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

Technical Assistance 2014–19

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

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

Resident Representative

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

RELATIONS WITH OTHER IFI'S

- World Bank Group

  http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=LR

- African Development Bank

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

- AFRITAC West 2

  http://www.afritacwest2.org/home

STATISTICAL ISSUES

(As of November 7, 2019)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. Most affected areas are: national accounts, government finance, and balance of payments statistics.
National Accounts: Comprehensive national accounts data are not available and Fund staff use their own estimates of GDP for surveillance. The Liberia Institute of Statistics and Geo-Information Services (LISGIS) is working on the rebasing of the national accounts, base year 2016. The National Accounts Annual Survey (NAAS) for 2016 was carried out and the survey results are available. Regarding the areas of the economy not covered by the NAAS, administrative data sources were identified and provided to LISGIS to cover those sectors in the course of the GDP rebasing. The 2016 data of the Labor Force survey and of the Household Income and Expenditure Survey (HIES) will be analyzed and used for measuring informal activities and GDP by the expenditure approach. The results of the rebased GDP are expected to be published in 2021.
Price Statistics: Assisted by the EDDI 2 project,[1] the LISGIS introduced an updated CPI from the January 2019 publication by using expenditure weights and an updated market basket based on the Household Income and Expenditure Survey conducted during 2016. Currently prices are collected only in Monrovia but the LISGIS plans to introduce national collection once recently introduced enhancements are sustained. The LISGIS does not currently compile a PPI for Liberia because this requires that an Economic Census be conducted.
Government Finance Statistics: Data reporting to STA for dissemination has lapsed. The last available data, which only covered the budgetary central government, corresponds to 2013. While currently compiled GFS largely aligns to the guidelines of the GFSM 2001/14, gaps remain, on the comprehensiveness of transactions in the statement of operations; and the institutional coverage of data. Not all external flows, on grants and loans, and associated expenditure are comprehensively captured in the statement of operations; and data coverage remains limited to the budgetary central government, Expenditure transactions are currently recorded on commitment basis, while all other transactions in the statement of operations are recorded on cash basis, to a large extent. No adjustment is made to bridge the timing difference of transactions on commitment and cash basis, in statement of operations of the budgetary central government, mainly due to the difficulty to accurately and timely capture cash expenditure. Improvements to data quality will require efforts to improve coordination and data sharing mechanisms between various data producing and data using units. Timely data reporting to STA should resume.
[1]Enhanced Data Dissemination Initiative (EDDI) phase 2 funded by the UK Department for International Development.

Monetary and Financial Statistics (MFS): The CBL has recently completed the compilation of monetary data based on STA Standardized Report Forms (SRFs) and needs to implement the January 2019 TA recommendations. The implementation of the mission's recommendation and the regular compilation of monetary data based on the SRFs are critical for surveillance.
Financial sector surveillance: The CBL submits some supervisory ratios to AFR for surveillance purposes. A TA mission at end-April 2019 established the FSI workbook, but the CBL needs to follow up with reporting banks on reporting issues before the FSIs can be published. CBL reports some data and indicators to the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
External sector statistics: As part of the UK DFID Project, the CBL has been receiving sustained TA missions. The quality of the ESS has been improving gradually, although for surveillance purpose more efforts are required . Balance of payments statistics are compiled quarterly since August 2016 on a *BPM6* basis and have been submitted to STA since start of 2017. In addition, the CBL has recently started compiling preliminary annual International Investment Position (IIP). With a view to further improve data quality, new administratively sourced cross-border flows and positions have been tapped and the CBL has implemented in 2018 an International Transactions Reporting System (ITRS), as well as Direct Investment survey. Moving forward, improvements are needed in the dialogue and collaboration with other data-producing institutions, namely the Statistics office and the central bank to ensure consistency in the methodological standards used as well as comprehensiveness of the current account components, of which trade.

II. Data Standards and Quality	
Participant in the enhanced General Data Dissemination System (e-GDDS) since October 2005. Metadata for most data categories were updated in November 2013.	No Data ROSC mission has been conducted.

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

Liberia: Table of Common Indicators Required for Surveillance					
	Date of Latest Observation	**Date Received**	**Frequency of Data[6]**	**Frequency of Reporting[6]**	**Frequency of Publication[6]**
Exchange Rates	10/2019	11/2019	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	10/2019	11/2019	D	M	Q
Reserve/Base Money	9/2019	11/2019	M	M	Q
Broad Money	9/2019	11/2019	M	M	Q
Central Bank Balance Sheet	9/2019	11/2019	M	M	Q
Consolidated Balance Sheet of the Banking System	9/2019	11/2019	M	M	Q
Interest Rates[2]	9/2019	11/2019	M	M	Q
Consumer Price Index	9/2019	11/2019	M	M	Q
Revenue, Expenditure, Balance and Composition of Financing[3]– Budgetary Central Government	10/20197	11/2019	WM	WM	Q
Stocks of Central Government and Central Government-Guaranteed Debt[4]	6/2019	9/2019	M	M	Q
External Current Account Balance	6/2019	9/2019	Q	Q	Q
Exports and Imports of Goods and Services	6/2019	9/2019	MQ	MQ	Q
GDP/GNP	2017	11/19/2018	A	A	I
Gross External Debt	6/2019	9/2019	M	M	Q
International Investment Position[5]	Q4/2017	6/2018	Q	Q	Q

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

[4]Including currency and maturity composition.

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

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

INTERNATIONAL MONETARY FUND

LIBERIA

November 26, 2019

REQUEST FOR A FOUR-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
Dominique Desruelle (IMF) and Marcello Estevão (IDA)

Prepared by the International Monetary Fund and the World Bank.

Text Table 1. Liberia: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Moderate*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Limited space to accommodate shocks*
Application of judgment	*No*

The Debt Sustainability Analysis (DSA) assesses Liberia at moderate risk of external debt distress and high risk of overall public debt distress, with very limited space to accommodate shocks and an extended breach of the PV of public debt-to-GDP ratio. As in the DSA accompanying the 2019 Article IV consultation, the government's domestic debt to the central bank and SOEs' debt guaranteed by the government are incorporated. In addition, the DSA accompanying this report incorporates repayment of US$45 million of the estimated domestic arrears in the medium term (which assumes that the government can manage to reject or negotiate haircuts on some of the outstanding stock). The analysis indicates that Liberia would reach high risk of external debt distress with only a small change in the terms of external debt or a failure to adjust primary expenditure to the available revenue envelope over the medium term under baseline assumptions. In this regard, the authorities should remain below the ceiling on non-concessional borrowing and refrain from risky collateralized agreements, while ensuring that new debt is contracted transparently (MEFP ¶36). Due consideration should also be given to the country's absorption capacity, which remains low.

PUBLIC DEBT COVERAGE

1. **The DSA covers central government debt, central government guaranteed debt, and central bank debt contracted on behalf of the government** (Text Table 2).[1] The bulk of State-Owned Enterprise (SOE) debt is guaranteed by the central government and is included in DSA, as Liberian SOEs are unable to secure external funding without such a guarantee. Government borrowing from the Central Bank of Liberia (CBL) has been included in the current DSA analysis, consisting of $254.5 million (7.8 percent of GDP) in legacy debt from the war time denominated in U.S. dollars, and about $242.5 in the form of bridge loans, suspense account, and on-lending of IMF budget support. In addition, the DSA includes $65 million in arrears to the construction sector, which took advances from banks to carry out public road projects. The largest debt of SOEs is a World Bank loan to the Liberia Electricity Corporation (LEC) for the rehabilitation of Mt. Coffee hydropower station.[2] Local governments' operations are small and unable to secure external funding without a central government guarantee. Other elements of the public sector debt are not included in the analysis because of data constraints.[3]

Text Table 2. Liberia: Coverage of Public Sector Debt

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

1	**The country's coverage of public debt**	The central government, central bank, government-guaranteed debt			
		Default		**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0.5	percent of GDP	0.5	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4	PPP	35	percent of PPP stock	6.1	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			13.6	

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

[1]The definition of external and domestic debt uses a residency criterion.

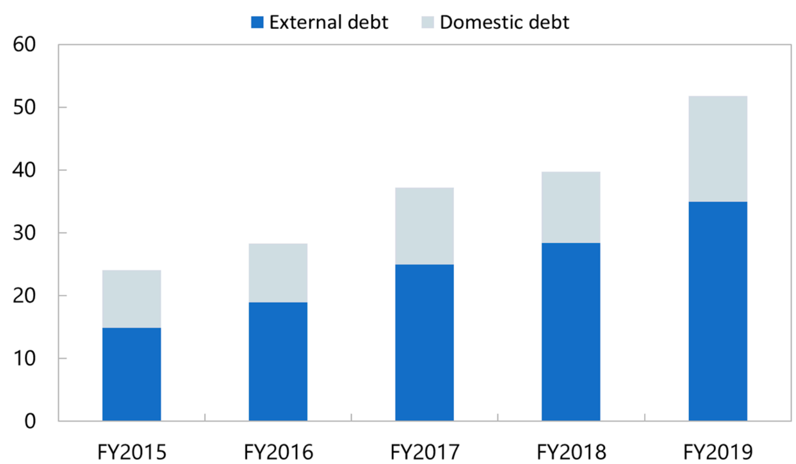
[2]This loan is direct lending to the government, but the implementation agency is the LEC.

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

BACKGROUND

2. **This DSA is being conducted in the context of a request for an Extended Credit Facility arrangement**. The last Low-Income Country DSA (LIC-DSA) was considered by the Executive Board in May 2019 as part of the 2019 Article IV consultation.[4] Liberia continues to be subject to the IDA Non-Concessional Borrowing Policy (NCBP) regardless of the risk of debt distress.[5]

Text Figure 1. Liberia: Stock of Public and Publicly Guaranteed Debt, FY2015–19[1/]
(Percent of GDP)



Sources: Liberian authorities and IMF staff calculations.

[1/]The debt to GDP ratios are calculated using external debt (in USD) evaluated at the end of period exchange rate over GDP (in USD) evaluated at the period average exchange rate.

3. **Resource constraints, macroeconomic imbalances, and longstanding fragility continue to challenge the authorities' efforts to improve living standards**. The government launched an ambitious pro-poor agenda aimed primarily at closing the country's infrastructure gap and raising the income level of the poor, but financing remains uncertain. Though well-intended, a rush to deliver election promises has at times compromised institutions and processes. On the macroeconomic front, large policy slippages have emerged, widening macroeconomic imbalances: (i) the fiscal policy stance has been loose and coupled with big revenue shortfalls and financing gaps; (ii) the monetary policy stance has been passively accommodative; and (iii) the CBL has intervened in the foreign exchange market depleting international reserves. After grappling with

[4]This DSA is prepared jointly by the staff of the IMF and World Bank, in collaboration with the authorities of Liberia. The current DSA follows the revised Debt Sustainability Framework (DSF) for LICs and Guidance Note (2017) in effect as of July 1, 2018. The last joint DSA can be found in IMF Country Report No. 19/169, June 2019.

[5]The NCBP requires a minimum grant element of 35 percent or higher, should a higher minimum be required under a Fund-supported program.

these challenges for a year and a half, a broad-based consensus for reform has emerged, culminating in the request for a Fund-supported program.

Text Table 3. Liberia: Structure of External Public Debt as of June-2019[1/]

	USD millions	Percent of Total	Percent of GDP[2/]
Multilateral	**889**	**87.5**	**30.6**
IMF	209	20.6	7.2
World Bank	440	43.3	15.1
AfDB	129	12.6	4.4
EIB	54	5.3	1.9
Other Multilateral	57	5.6	2.0
Bilateral:Non-Paris Club	**127**	**12.5**	**4.4**
China	55	5.4	1.9
Kuwait	17	1.7	0.6
Saudi Arabia	51	5.0	1.7
Other Bilateral	5	0.5	0.2
Total	**1016**	**100.0**	**34.9**

Sources: Liberian authorities and IMF staff calculations.

[1] Debt stock on disbursement basis.

[2] The debt to GDP ratio are calculate dusing external debt (in USD) evaluated at the end of period exchange rate over GDP (in USD) evaluated at the period average exchange rate, to ensure consistency with the DSA template.

4. **Identifying viable external financing to fulfill the pro-poor agenda has proved difficult**. External grants inflows are on a declining trend—expected to decrease from 16.7 percent of GDP in FY2017 to 10.3 percent of GDP in FY2024—and the authorities' capacity to mobilize domestic revenue remains limited relative to the size of the need. Therefore, a shrinking revenue envelope prevents the authorities' from effectively delivering the much-needed public services in a manner that is consistent with macroeconomic stability and conducive to long-term growth. The authorities' efforts to secure financing from non-traditional donors, mostly on non-concessional terms, have not been successful. In a fast-tracked process that lacked transparency, the government of Liberia (GOL) ratified two separate external loan agreements totaling US$957.2 million (29 percent of GDP) in May of 2018.[6] More recently the authorities have indicated that they successfully cancelled them. In addition to this, the government issued domestic bonds in May to clear its US$65 million of arrears to the domestic banking sector. The government is now in discussion with nonresident banks to help the domestic banks discount these bonds which could reduce the limited amount of external non-concessional borrowing space available under the program.[7]

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

[7]The bonds (annual 4 percent coupon payments and 7 redemptions of equal amount for the next 7 years) are held by seven banks. If the authorities were to go ahead with this arrangement, debt service paid by the government would likely be unchanged, but the use of the proposed bond discount facility (BDF) would change the holder of the

(continued)

5. Following the completion of HIPC in 2010, debt accumulated rapidly due to scaled-up infrastructure spending and the government's response to a series of adverse shocks. The total public external debt stock was $1,016 million (34.9 percent of GDP)[8] at end-FY2019, comprising mostly of multilateral loans (Text Table 3). The level of domestic debt for 2019 has been revised up since the last DSA to reflect the government's recognition of existing debt, the increased use of the CBL overdraft facility, and the inclusion of new additional arrears. Thus, the debt-to-GDP ratio at the end of the program period has increased, but the present value of the debt stock is lower, as amortization of principal on the debt to the CBL has been pushed out to begin in 2029. Total public and publicly guaranteed debt at end-FY2019 is estimated at 51.8 percent of GDP (Text Figure 1).

UNDERLYING ASSUMPTIONS

6. The key macroeconomic assumptions are in line with the baseline in the Staff Report and broadly similar to the reform scenario described in the 2019 Article IV Staff Report.[9] It is assumed that the authorities will implement fiscal and monetary adjustments recommended in the 2018 and 2019 Article IV consultations, with the cost of adjustments predominantly felt in 2019–20, before the economy recovers towards a steady state. Changes to the underlying assumptions are as follows (Text Table 4):

- The ***real GDP growth path*** has been revised down from 0.4 percent for 2019 in the 2019 Article IV Staff Report to -1.4 percent as the impact of tight monetary and fiscal (on-budget operations) policies kicks in immediately, combined with weakening confidence amidst deteriorating macroeconomic conditions. Following this contraction, growth is subsequently expected to recover to 1.4 percent in 2020 and is projected to reach 5.4 percent in 2024, initially due to a recovery in consumption and later in investment.

Text Table 4. Liberia: Underlying DSA Assumptions

	FY2019	FY2019-24	FY2024-40
Nominal GDP	(In million US dollar)	Average growth (In percent)	Average growth (In percent)
2019 Article IV	3235	1.7	6.8
Current	3274	1.1	7.8
Exports of Goods and Service			
2019 Article IV	811	4.5	5.9
Current	776	5.4	6.5

Sources: Liberian authorities; and IMF staff projections.

- The ***inflation*** outlook deteriorated significantly in the second half of 2018. Closely following developments in the foreign exchange markets, average headline inflation increased to 21.2 percent in 2018 (compared to 11.7 estimated previously) and is forecasted at 28 in 2019. Inflation is expected to decline to 15 percent by

government debt from resident to non-resident, and thereby reduce the limited amount of external non-concessional borrowing space available under the program.

[8]The ratio is calculated using external debt (in USD) evaluated at the end of period exchange rate over GDP (in USD) evaluated at the period average exchange rate.

[9]See IMF Country Report No. 19/169, June 2019.

the end of 2020 with a drop-in reserve money growth and remains at about 7 percent in the medium term.

- The ***fiscal deficit*** of the budgetary central government is set to decline as fiscal consolidation begins. The fiscal deficit widened to 4.8 percent of GDP in FY2018 and widened further to 5.2 percent of GDP in FY2019, partially financed by a central bank bridge loan and drawdowns on deposits. The consolidation is set to start in FY2020, with the deficit declining to 3.8 percent of GDP by FY2024. The fiscal consolidation will be anchored by the debt-stabilizing primary balance of -3.2 percent of GDP.

- The ***current account deficit*** estimates for 2019 declined from 23.4 to 21.1 percent of GDP. The trade balance improved modestly in 2018, but it was more than offset by a decline in net transfers following the United Nations Mission in Liberia (UNMIL) withdrawal and a decline in net income. Over the medium term, the current account deficit is expected to remain high as stronger economic policies facilitate FDI and associated imports. The external sector assessment shows that Liberia's external sector position is substantially weaker than implied by fundamentals and desirable policies.

- The CBL's foreign ***reserves*** fell from 2.4 months of import cover at end-2018 to 2.1 months due to financing of the CBL's operational budget, FX intervention, and lending to the government. Reserves are expected to increase modestly thereafter to 2.6 months of imports in 2023.

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

- ***External borrowing***. The DSA assumes that public external debt would increase by about $930 million in the medium term. The average grant element of new borrowing is projected to remain at an average of 44.3 percent over the program period. The baseline assumes non-concessional loans averaging $44 million per year.

- ***Domestic borrowing***. The baseline assumes that the central government no longer relies on central bank financing to fill budgetary needs but borrows to repay past ECF and RCF budget support amounting US$107.8 million. It also assumes that the debt service burden is decreased to a more manageable levels for the GOL, with debt service to the CBL averaging US$23 million between 2020 and 2024—compared to an average of US$37.2 million in debt service of debt with existing MOUs under the baseline—of which US$15.9 million per year, on average, is allocated to interest payments. The baseline also assumes repayment of US$45 million of arrears repayment between the period of FY2021-24 with a combination of on-budget allocation and issuance of domestic debt instruments. The real interest rate is projected to remain negative in the medium term in line with current nominal rates and inflation developments.

REALISM OF THE BASELINE ASSUMPTIONS

8. Drivers of the debt dynamics seem to reflect the past well, but adjust for revisions of policies under a Fund-supported program (Figure 3).

- Figure 3 shows the evolution of past projections of external and public debt to GDP ratios for the current DSA, the previous DSA (the 2019 Article IV DSA), and the DSA from 5 years ago. The current DSA reflects the latest revisions to the medium-term outlook and policy direction of the authorities under a Fund-supported program. The downward revision of the borrowing envelope combined with higher real GDP growth explain most of the decrease in the ratio of external-debt-to-GDP in coming years compared to the 2019 Article IV DSA. In addition, the current DSA assumes less financing on non-concessional terms relative to the 2019 Article IV DSA. However, the downward visions to real GDP growth compared to the 2014 DSA explain most of the increase in the ratio of external-debt-to GDP in the previous and current DSA. The closing of the financing gap and elimination of central bank financing for budgetary needs in the coming year explain the differences in domestic debt dynamics outlined in the previous DSA.

- A high contribution of unexpected non-interest current account deficits to past debt accumulation and an equally large unexpected residual to the past debt accumulation in the opposite direction are observed (Figure 3). These debt dynamics are plausible since residual financing (i.e., net private financing under other investment flows in the Balance of Payments, Table 2), which is enabling the large current account deficit, includes current transfers (remittances) that are not captured by the official statistics.

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

9. The improvement in the primary balance in the next three years is towards the upper half of the distribution of adjustments for countries producing the LIC DSA. The second DSF realism tool assesses the realism of the fiscal projection. Figure 5a highlights that the anticipated adjustment in the primary balance of 2.5 percentage points of GDP in the next three years is in the top quartile of adjustments for the range of countries producing the LIC DSA. The growth projection for 2020 is optimistic relative to what is suggested by the fiscal multiplier realism tool. This is because the baseline growth in 2019 is unusually low due to weakening confidence amidst deteriorating macroeconomic conditions, which are projected to improve somewhat in 2020.

COUNTRY CLASSIFICATION AND MODEL SIGNAL

10. **Liberia's debt-carrying capacity based on the Composite Indicator (CI) is assessed as weak** (Text Table 4).[10] The CI rating in the previous DSA was medium; however, downward revisions to the path of real growth have reduced the CI score from 2.78 at the time to 2.5 in the April 2019 WEO and to 2.41 in the October 2019 WEO. As a result, the corresponding rating has been downgraded to weak. In addition, Liberia was recently downgraded to "weak quality of debt monitoring" in line with the country's debt-recording capacity.

Text Table 5. Liberia: Composite Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.983	1.15	48%
Real growth rate (in percent)	2.719	0.427	0.01	0%
Import coverage of reserves (in percent)	4.052	13.582	0.55	23%
Import coverage of reserves^2 (in percent)	-3.990	1.845	-0.07	-3%
Remittances (in percent)	2.022	15.010	0.30	13%
World economic growth (in percent)	13.520	3.499	0.47	20%
CI Score			2.41	100%
CI rating			Weak	

Text Table 6. Liberia: Debt Carrying Capacity and Thresholds

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

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

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

EXTERNAL DSA

12. Liberia remains at moderate risk of external debt distress with very limited space to accommodate shocks. The PV of debt-to-GDP and the PV of debt-to-export ratios are set to remain below their policy dependent threshold, with the former peaking at just below 30 percent between FY2022-26 and the latter remaining below 140 percent in the medium-to long-term (Figure 1). The debt-service to revenue ratio remains below the threshold of 14 percent, peaking at 12.4 percent in FY2023. The debt-service to exports ratio remains below the threshold, peaking in 2030 at 8.6 percent.

13. Standard stress tests show that a further deterioration of the macroeconomic outlook will lead to breaches of the policy dependent thresholds (Table 3). All standard stress tests, namely, a shock of one-standard deviation in the primary balance, nominal export growth, other non-debt creating flows, and a one-time depreciation of the size needed to close the real exchange overvaluation will all result in breaching the thresholds on the PV of debt-to-GDP ratio. A shock to the primary balance, exports, or other debt creating flows will lead to a breaching in the threshold on the PV of debt-to-exports ratio.

PUBLIC DSA

14. Public sector debt indicators show the limited borrowing space that Liberia has, with the PV of public debt-to GDP ratio showing an extended breach. The indicator increases from an estimate of 40.1 percent in FY2019 to 45.9 percent in FY2021 and declining to 36.4 percent in FY2030 (Table 2 and Figure 2). The PV of debt-to-revenue ratio will increase to 156.4 percent in FY2023 and decline slowly to 126.8 percent by 2030, while the debt-service-to-revenue ratio will increase to 10.5 percent by FY2023 and remain above 7 percent in subsequent years.

15. Under standard sensitivity analysis, the PV of debt-to-GDP breaches the relevant threshold. Based on standard stress tests, a deterioration of other flows results in the largest breach of the threshold on the PV of debt-to-GDP ratio, followed by a shock to exports and the primary balance, real GDP growth, or a one-time depreciation (Table 4). Additionally, the contingent liability stress test is estimated to lead to a one-off increase in the debt-to-GDP ratio of 13.6 percent, capturing the combined shock of SOE's external debt default, PPPs' distress, and financial market vulnerabilities that are not included in the covered data. Given these risks and the extended breach of the PV of debt-to-GDP threshold, Liberia is assessed to have a high risk of overall public debt distress.

RISK RATING AND VULNERABILITIES

16. Liberia has limited borrowing space, and careful consideration to the terms of new external borrowing and the country's absorptive capacity is needed (Figure 4). The authorities' ambitious infrastructure program to rehabilitate the national road network will undoubtedly raise the PV of debt relative to its foreign exchange earning capacity. The projected disbursement path for the period of FY2019–24 is beyond what the authorities have been able to absorb in the past but reflects their ambition to secure large infrastructure loans. However, if projects are carefully selected and implemented, borrowing beyond past absorptive capacity may generate enough GDP growth to compensate for the increase in nominal debt levels. Nevertheless, the effect of the rehabilitation of roads on aggregate demand from the financing options under consideration could be limited, as only a small part of the total cost of rehabilitation of the roads would be likely to be sourced locally. Continued efforts to improve debt monitoring capacity, including through improvements to the current IT environment, is essential to derive accurate long-term debt service projections and ensure timely debt service.

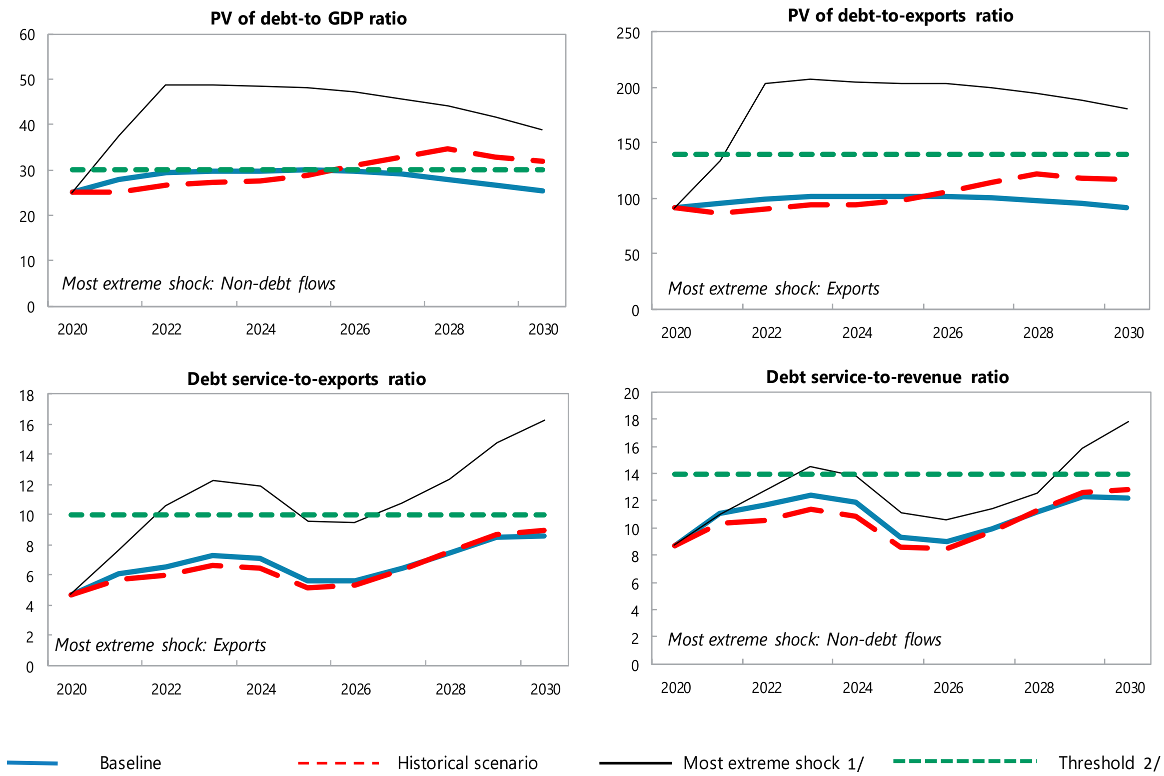
17. The proposed revision to the adjustment path will keep the thrust of the assessment of the previous DSA, though debt stabilizes at a higher level in the medium term. While most of the domestic debt is intra-government borrowing (with the CBL), the increase in the level for 2019 reflects the government's recognition of its existing debt. Despite an increase in the level, the proposed repayment plan allows for a manageable level of net repayments to the CBL—freeing resources for needed primary expenditure—while still ensuring policy solvency of the central bank.

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

AUTHORITIES' VIEWS

19. The authorities broadly agreed with the importance of maintaining debt sustainability in the medium term. The authorities expressed its commitment to refrain from additional central bank financing and buildup of arrears. Moreover, the authorities reiterated their preference for concessional financing as it recognizes that borrowing space is limited and sensitive to the terms of new loans. In this regard, the authorities expressed commitment to remain below the ceiling on non-concessional borrowing and refrain from nontransparent collateralized agreements, while ensuring that new debt is contracted transparently. However, given its stated commitment to fulfill its Pro-Poor Agenda, the authorities continue to emphasize the pressing need to move forward with their development agenda and expressed the hope that the international community would provide the current administration with assistance in meeting these needs through provision of budget support, project grants, and financing for infrastructure projects.

Figure 1. Liberia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2020–30



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

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

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	7	7

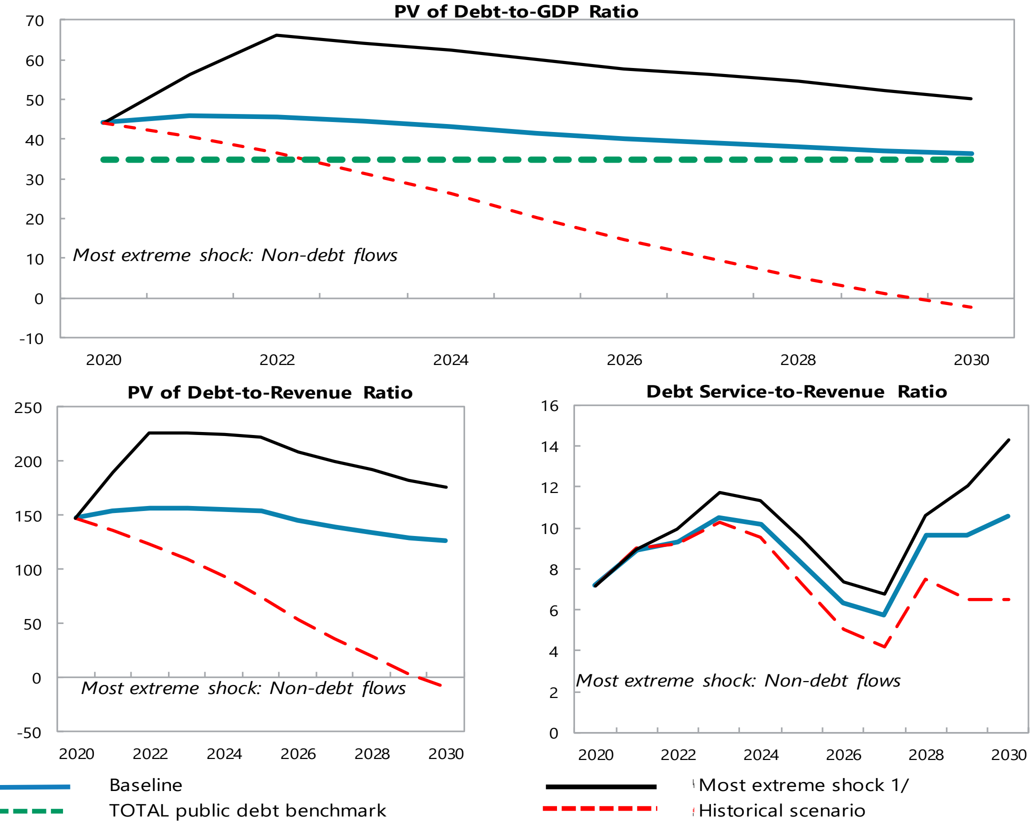
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

Figure 2. Liberia: Indicators of Public Debt Under Alternative Scenarios, 2020–30



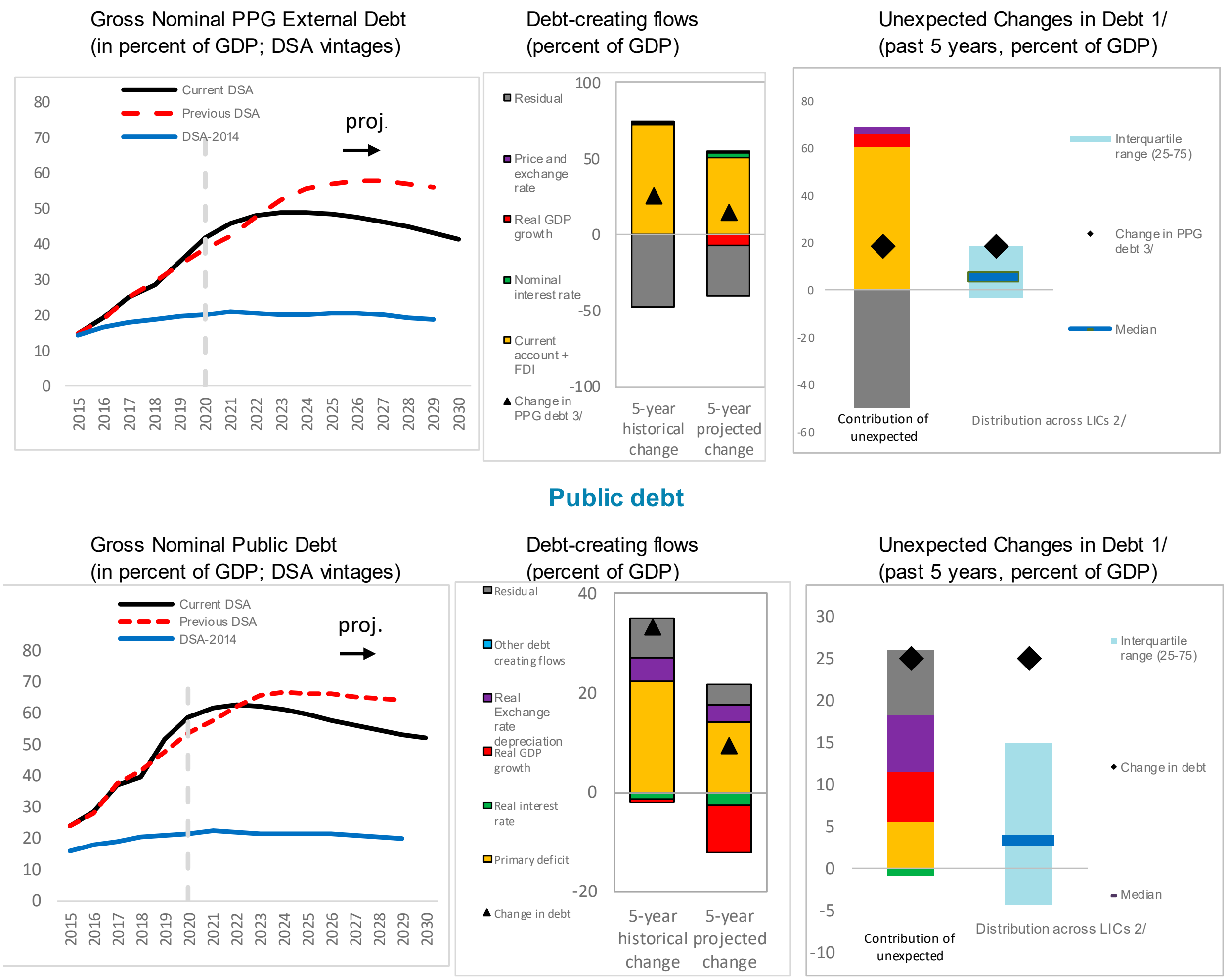
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	90%	90%
Domestic medium and long-term	10%	10%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.0%	4.0%
Avg. maturity (incl. grace period)	8	8
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

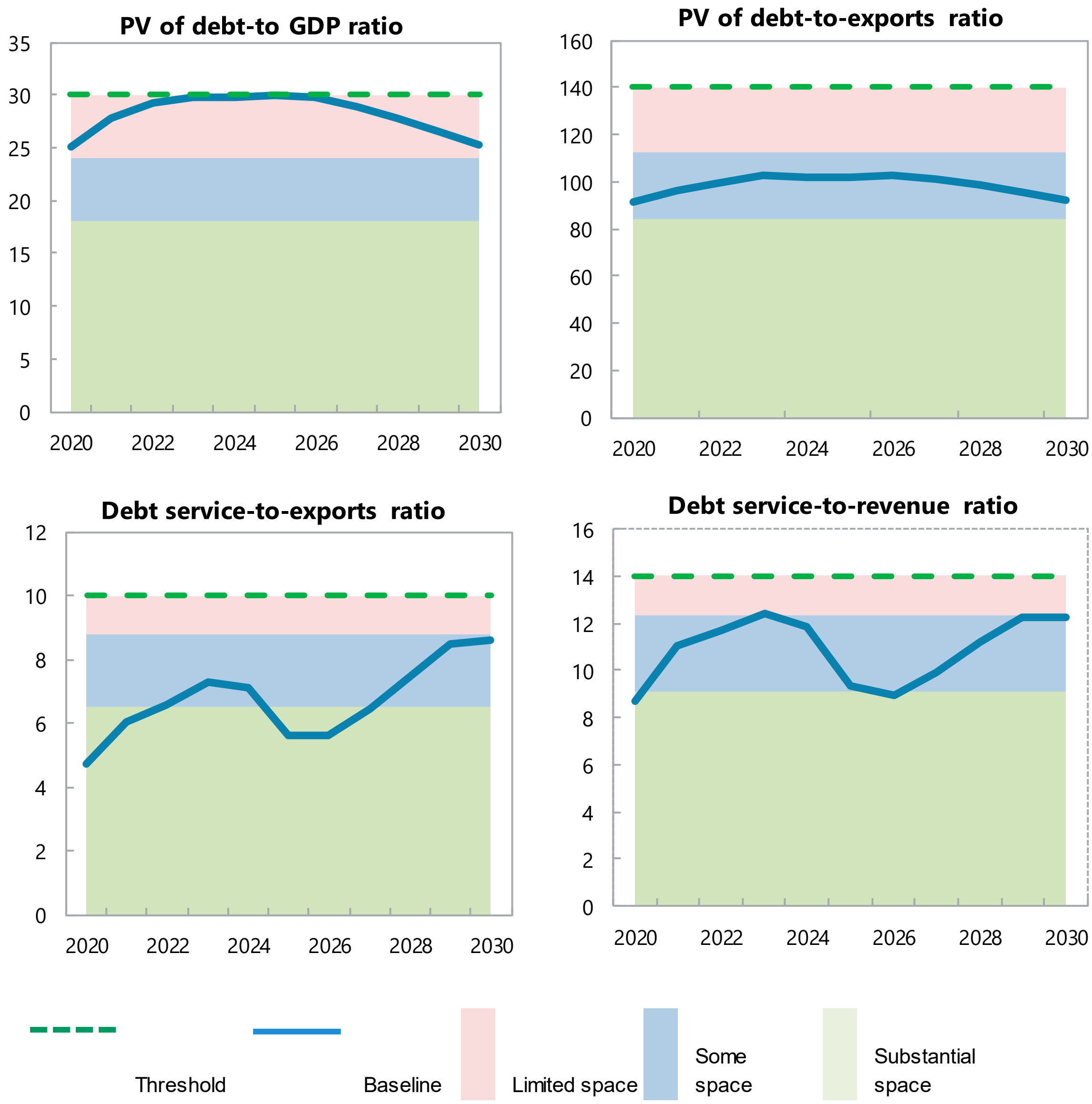


1/ Difference between anticipated and actual contributions on debt ratios.

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

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

Figure 4. Liberia: Qualification of the Moderate Category, 2020–30[1/]

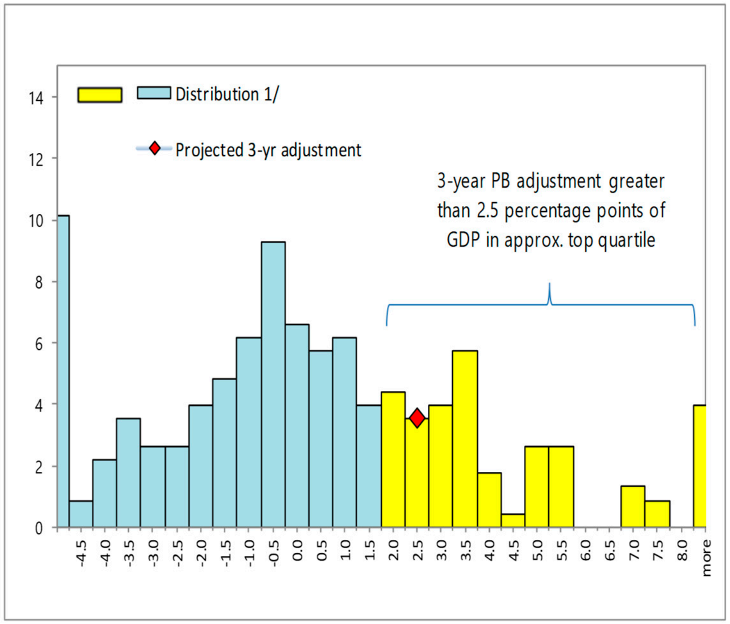


Sources: Country authorities; and staff estimates and projections.

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

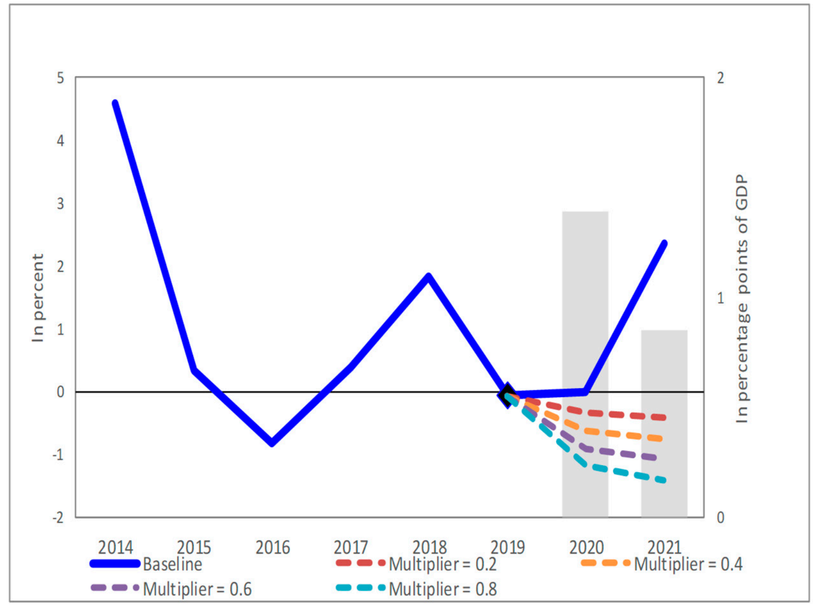
Figure 5. Liberia: Realism Tools

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



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

Fiscal Adjustment and Possible Growth Paths 1/



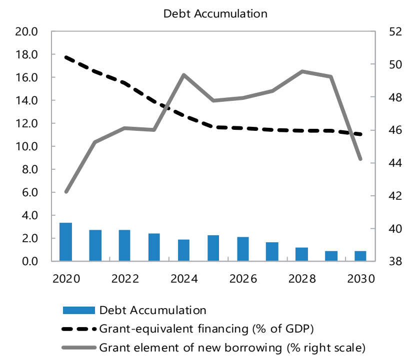
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

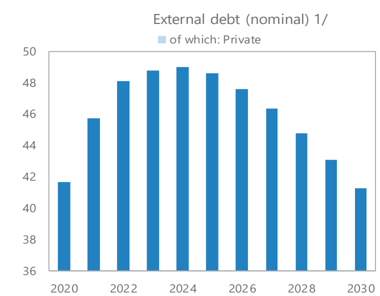
Table 1. Liberia: External Debt Sustainability Framework, Baseline Scenario, 2017–40

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	**24.9**	**28.5**	**34.9**	**41.7**	**45.8**	**48.1**	**48.8**	**49.0**	**48.6**	**41.2**	**29.7**	**15.8**	**45.9**
of which: public and publicly guaranteed (PPG)	**24.9**	**28.5**	**34.9**	**41.7**	**45.8**	**48.1**	**48.8**	**49.0**	**48.6**	**41.2**	**29.7**	**15.8**	**45.9**
Change in external debt	5.9	3.6	6.4	6.7	4.1	2.4	0.7	0.2	-0.4	-1.8	-1.2		
Identified net debt-creating flows	**16.1**	**14.4**	**13.4**	**12.2**	**11.0**	**8.0**	**8.0**	**7.5**	**6.0**	**7.8**	**3.5**	**10.1**	**7.4**
Non-interest current account deficit	**23.5**	**23.1**	**20.5**	**20.7**	**21.6**	**19.9**	**19.7**	**18.9**	**17.5**	**9.5**	**4.6**	**22.1**	**16.7**
Deficit in balance of goods and services	37.1	28.4	23.8	23.1	22.6	21.2	20.3	19.6	18.7	13.5	7.8	**46.0**	**18.6**
Exports	22.7	23.7	25.1	27.4	28.9	29.4	29.1	29.3	29.3	27.4	24.0		
Imports	59.7	52.1	48.9	50.6	51.6	50.6	49.5	48.9	48.0	40.9	31.8		
Net current transfers (negative = inflow)	-22.7	-18.5	-19.4	-20.0	-19.4	-18.3	-16.9	-15.5	-15.0	-11.9	-7.5	**-36.1**	**-15.5**
of which: official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	9.1	13.2	16.0	17.5	18.4	17.0	16.2	14.8	13.7	7.9	4.4	**12.3**	**13.6**
Net FDI (negative = inflow)	**-7.5**	**-8.7**	**-7.9**	**-9.0**	**-10.1**	**-10.8**	**-10.1**	**-9.5**	**-9.4**	**0.0**	**0.0**	**-12.4**	**-7.8**
Endogenous debt dynamics 2/	**0.1**	**0.1**	**0.8**	**0.5**	**-0.5**	**-1.1**	**-1.5**	**-1.8**	**-2.1**	**-1.7**	**-1.1**		
Contribution from nominal interest rate	0.2	0.3	0.3	0.5	0.5	0.5	0.6	0.6	0.3	0.4	0.4		
Contribution from real GDP growth	-0.1	-0.5	0.0	0.0	-1.0	-1.7	-2.1	-2.4	-2.5	-2.1	-1.5		
Contribution from price and exchange rate changes	0.0	0.2	0.6	...	...	...	...	...	...	...	...		
Residual 3/	**-10.2**	**-10.8**	**-7.0**	**-5.4**	**-6.9**	**-5.6**	**-7.4**	**-7.3**	**-6.4**	**-9.6**	**-4.7**	**-6.9**	**-6.9**
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		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**21.0**	**25.0**	**27.8**	**29.3**	**29.8**	**29.8**	**29.9**	**25.2**	**20.2**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**83.8**	**91.2**	**96.0**	**99.6**	**102.3**	**101.8**	**102.1**	**92.0**	**84.3**		
PPG debt service-to-exports ratio	**1.3**	**2.8**	**3.5**	**4.7**	**6.1**	**6.5**	**7.3**	**7.1**	**5.6**	**8.6**	**7.5**		
PPG debt service-to-revenue ratio	**2.1**	**5.1**	**6.1**	**8.7**	**11.0**	**11.7**	**12.4**	**11.8**	**9.3**	**12.2**	**9.0**		
Gross external financing need (Million of U.S. dollars)	530.8	490.8	431.7	404.7	414.0	358.0	402.9	419.5	381.7	692.5	798.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	0.4	1.8	-0.1	0.0	2.4	3.8	4.6	5.2	5.4	5.2	5.2	**3.3**	**4.3**
GDP deflator in US dollar terms (change in percent)	0.2	-0.9	-1.9	-2.6	-2.7	0.4	1.9	0.9	1.6	2.9	2.1	**3.0**	**1.2**
Effective interest rate (percent) 4/	0.9	1.2	0.9	1.4	1.1	1.2	1.2	1.2	0.7	1.0	1.3	**1.1**	**1.0**
Growth of exports of G&S (US dollar terms, in percent)	-4.6	5.5	3.8	6.5	5.2	5.8	5.5	6.7	7.2	6.9	4.9	**7.6**	**6.4**
Growth of imports of G&S (US dollar terms, in percent)	-18.3	-12.0	-7.9	0.7	1.6	2.2	4.1	4.8	5.2	5.1	5.2	**1.4**	**3.9**
Grant element of new public sector borrowing (in percent)	...	...	...	42.2	45.3	46.1	46.0	49.4	47.8	44.2	32.2	**...**	**46.9**
Government revenues (excluding grants, in percent of GDP)	14.3	12.9	14.4	14.9	15.9	16.5	17.0	17.5	17.5	19.2	20.0	**14.9**	**17.6**
Aid flows (in Million of US dollars) 5/	663.4	549.7	588.0	555.2	527.9	520.2	498.3	492.3	488.3	694.4	1277.9		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	17.7	16.5	15.5	13.9	12.6	11.6	11.0	9.7	**...**	**13.1**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	83.0	83.8	82.9	82.2	83.9	83.3	85.2	86.0	**...**	**84.1**
Nominal GDP (Million of US dollars)	3,244	3,274	3,210	3,127	3,115	3,246	3,456	3,667	3,926	5,834	12,432		
Nominal dollar GDP growth	0.6	0.9	-2.0	-2.6	-0.4	4.2	6.5	6.1	7.1	8.3	7.3	**6.5**	**5.6**
Memorandum items:													
PV of external debt 7/	...	...	21.0	25.0	27.8	29.3	29.8	29.8	29.9	25.2	20.2		
In percent of exports	...	...	83.8	91.2	96.0	99.6	102.3	101.8	102.1	92.0	84.3		
Total external debt service-to-exports ratio	1.3	2.8	3.5	4.7	6.1	6.5	7.3	7.1	5.6	8.6	7.5		
PV of PPG external debt (in Million of US dollars)			674.8	781.6	865.9	950.4	1029.2	1093.4	1175.4	1470.9	2515.3		
(PVt-PVt-1)/GDPt-1 (in percent)				3.3	2.7	2.7	2.4	1.9	2.2	0.9	0.8		
Non-interest current account deficit that stabilizes debt ratio	17.6	19.5	14.0	13.9	17.5	17.5	19.0	18.7	17.9	11.3	5.8		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

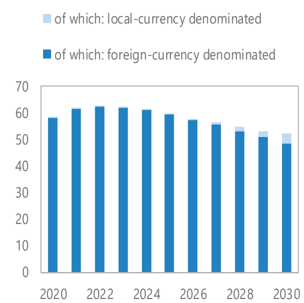
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

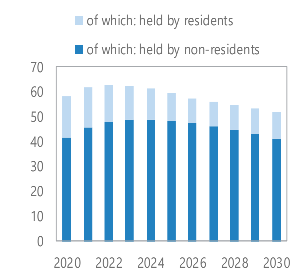
Table 2. Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–40
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	37.2	39.7	51.8	58.4	61.8	62.8	62.1	61.3	59.4	52.0	60.3	27.6	58.1
of which: external debt	24.9	28.5	34.9	41.7	45.8	48.1	48.8	49.0	48.6	41.2	29.7	15.8	45.9
Change in public sector debt	8.9	2.5	12.1	6.6	3.4	1.0	-0.7	-0.9	-1.9	-1.2	1.6		
Identified debt-creating flows	5.7	4.0	6.4	5.4	2.4	-0.2	-1.2	-0.8	-1.1	0.1	1.3	-4.1	0.2
Primary deficit	4.5	4.2	5.1	3.7	2.8	2.4	2.7	2.5	3.1	3.7	3.5	-4.6	3.2
Revenue and grants	31.0	25.9	28.2	29.9	29.8	29.3	28.4	27.8	27.0	28.7	28.9	24.7	28.5
of which: grants	16.7	13.0	13.8	15.1	13.9	12.8	11.4	10.3	9.5	9.5	8.9		
Primary (noninterest) expenditure	35.5	30.2	33.3	33.6	32.6	31.7	31.1	30.3	30.1	32.4	32.4	20.1	31.7
Automatic debt dynamics	1.2	-0.2	1.3	1.7	-0.5	-2.6	-3.9	-3.3	-4.2	-3.6	-2.2		
Contribution from interest rate/growth differential	-0.3	-1.2	-0.5	-0.3	-1.9	-2.9	-3.4	-3.6	-3.9	-3.2	-2.1		
of which: contribution from average real interest rate	-0.2	-0.6	-0.5	-0.3	-0.6	-0.7	-0.6	-0.6	-0.8	-0.5	0.7		
of which: contribution from real GDP growth	-0.1	-0.7	0.0	0.0	-1.4	-2.3	-2.7	-3.0	-3.1	-2.7	-2.9		
Contribution from real exchange rate depreciation	1.5	1.0	1.8	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	3.2	-1.5	5.7	3.2	2.5	1.5	0.0	0.3	-1.0	-1.7	0.2	7.4	-0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	40.1	44.2	45.9	45.7	44.4	43.1	41.5	36.4	51.1		
PV of public debt-to-revenue and grants ratio	...	...	142.1	147.7	154.1	156.0	156.4	155.2	153.8	126.8	176.8		
Debt service-to-revenue and grants ratio 3/	2.4	3.6	5.3	7.2	8.9	9.3	10.5	10.1	8.3	10.6	24.9		
Gross financing need 4/	5.2	5.2	6.6	5.8	5.5	5.1	5.7	5.3	5.3	6.7	10.7		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	0.4	1.8	-0.1	0.0	2.4	3.8	4.6	5.2	5.4	5.2	5.2	3.3	4.3
Average nominal interest rate on external debt (in percent)	0.9	1.3	1.0	1.6	1.2	1.3	1.3	1.3	0.8	1.0	1.3	1.1	1.1
Average real interest rate on domestic debt (in percent)	-11.5	-16.8	-16.3	-15.7	-9.5	-9.6	-7.2	-4.2	-6.2	-2.7	4.2	-9.4	-6.6
Real exchange rate depreciation (in percent, + indicates depreciation)	5.4	2.9	4.5	...	...	...	...	...	...	...	...	0.2	...
Inflation rate (GDP deflator, in percent)	14.9	23.2	28.6	23.2	14.9	14.1	12.5	9.0	7.8	6.1	5.2	12.6	10.2
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.3	-13.4	10.2	1.0	-0.8	0.9	2.6	2.3	4.8	5.9	5.2	3.4	4.1
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-4.4	1.8	-7.0	-3.0	-0.5	1.4	3.4	3.3	4.9	4.9	1.9	-3.2	3.2
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–30

(Percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	25	28	29	30	30	30	30	29	28	26	25
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	25	25	27	27	28	29	**31**	**33**	**35**	**33**	**32**
B. Bound Tests											
B1. Real GDP growth	25	29	**33**	**33**	**33**	**33**	**33**	**32**	**31**	30	28
B2. Primary balance	25	**33**	**40**	**41**	**41**	**41**	**40**	**39**	**38**	**36**	**34**
B3. Exports	25	**32**	**41**	**41**	**41**	**41**	**40**	**39**	**38**	**36**	**34**
B4. Other flows 3/	25	**37**	**49**	**49**	**48**	**48**	**47**	**46**	**44**	**42**	**39**
B5. Depreciation	25	**40**	**36**	**37**	**37**	**37**	**37**	**36**	**35**	**33**	**32**
B6. Combination of B1-B5	25	**36**	**44**	**44**	**44**	**44**	**43**	**42**	**40**	**38**	**36**
C. Tailored Tests											
C1. Combined contingent liabilities	25	**34**	**36**	**37**	**37**	**37**	**36**	**35**	**34**	**32**	**31**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	91	96	100	102	102	102	102	101	98	95	92
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	91	87	90	94	94	99	106	114	122	118	117
B. Bound Tests											
B1. Real GDP growth	91	96	100	102	102	102	102	101	98	95	92
B2. Primary balance	91	115	137	140	139	139	139	137	134	130	125
B3. Exports	91	134	**203**	**207**	**205**	**204**	**204**	**200**	**195**	**189**	**180**
B4. Other flows 3/	91	130	**166**	**167**	**165**	**164**	**163**	**160**	**156**	**150**	**142**
B5. Depreciation	91	96	85	88	88	89	89	88	86	83	81
B6. Combination of B1-B5	91	133	139	**174**	**172**	**171**	**171**	**168**	**163**	**157**	**150**
C. Tailored Tests											
C1. Combined contingent liabilities	91	119	123	126	125	125	125	123	120	117	113
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	5	6	7	7	7	6	6	6	7	8	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	5	6	6	7	6	5	5	6	8	9	9
B. Bound Tests											
B1. Real GDP growth	5	6	7	7	7	6	6	6	7	8	9
B2. Primary balance	5	6	7	8	8	6	6	7	8	10	**11**
B3. Exports	5	8	**11**	**12**	**12**	10	10	**11**	**12**	**15**	**16**
B4. Other flows 3/	5	6	7	8	8	7	7	7	8	**11**	**12**
B5. Depreciation	5	6	7	7	7	5	5	6	7	8	8
B6. Combination of B1-B5	5	7	9	10	10	8	8	9	10	**13**	**13**
C. Tailored Tests											
C1. Combined contingent liabilities	5	6	7	8	7	6	6	7	8	9	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	9	11	12	12	12	9	9	10	11	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	9	10	11	11	11	9	9	10	11	13	13
B. Bound Tests											
B1. Real GDP growth	9	12	13	14	13	10	10	11	12	14	14
B2. Primary balance	9	11	12	14	13	10	10	11	12	**14**	**16**
B3. Exports	9	11	13	**14**	14	11	10	11	13	**15**	**16**
B4. Other flows 3/	9	11	13	**15**	14	11	11	11	13	**16**	**18**
B5. Depreciation	9	**16**	**17**	**17**	**16**	13	12	14	**16**	**17**	**16**
B6. Combination of B1-B5	9	12	13	**15**	14	11	11	12	13	**16**	**17**
C. Tailored Tests											
C1. Combined contingent liabilities	9	11	12	13	13	10	10	10	12	13	13
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Liberia: Sensitivity Analysis for Key Indicators of Public Debt, 2020–30

(Percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	PV of Debt-to-GDP Ratio										
Baseline	**44**	**46**	**46**	**44**	**43**	**42**	**40**	**39**	**38**	**37**	**36**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	**44**	**41**	**37**	32	26	20	15	10	5	1	-2
B. Bound Tests											
B1. Real GDP growth	**44**	**47**	**49**	**48**	**48**	**47**	**46**	**46**	**46**	**46**	**46**
B2. Primary balance	**44**	**50**	**55**	**53**	**52**	**49**	**47**	**46**	**45**	**43**	**43**
B3. Exports	**44**	**49**	**55**	**53**	**52**	**50**	**48**	**47**	**46**	**44**	**43**
B4. Other flows 3/	**44**	**56**	**66**	**64**	**62**	**60**	**58**	**56**	**55**	**52**	**50**
B5. Depreciation	**44**	**51**	**47**	**44**	**41**	**38**	35	33	30	28	27
B6. Combination of B1-B5	**44**	**48**	**47**	**39**	**38**	**37**	**35**	35	34	33	32
C. Tailored Tests											
C1. Combined contingent liabilities	**44**	**52**	**50**	**48**	**47**	**45**	**43**	**42**	**41**	**40**	**39**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
	PV of Debt-to-Revenue Ratio										
Baseline	148	154	156	156	155	154	145	140	134	129	127
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	148	136	123	109	93	75	54	36	19	4	(8)
B. Bound Tests											
B1. Real GDP growth	148	154	160	163	165	167	161	159	157	155	156
B2. Primary balance	148	169	188	187	185	183	172	165	158	151	148
B3. Exports	148	166	188	188	187	185	174	167	161	154	149
B4. Other flows 3/	148	189	226	226	225	222	209	200	192	182	175
B5. Depreciation	148	178	168	160	152	144	130	120	111	101	96
B6. Combination of B1-B5	148	165	163	140	139	137	129	124	120	115	114
C. Tailored Tests											
C1. Combined contingent liabilities	148	174	172	171	169	166	156	150	145	139	137
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	7	9	9	10	10	8	6	6	10	10	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	7	9	9	10	10	7	5	4	8	7	7
B. Bound Tests											
B1. Real GDP growth	7	9	10	11	11	9	7	7	11	11	13
B2. Primary balance	7	9	11	13	12	10	8	7	11	12	13
B3. Exports	7	9	10	11	11	9	7	6	10	11	12
B4. Other flows 3/	7	9	10	12	11	9	7	7	11	12	14
B5. Depreciation	7	10	12	13	13	10	8	8	12	12	13
B6. Combination of B1-B5	7	9	9	10	10	8	6	6	10	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	7	9	11	12	11	9	7	7	10	10	11
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

Statement by the IMF Staff Representative on Liberia

December 10, 2019

1. **This staff statement does not alter the thrust of the staff appraisal in the staff report but is intended to provide clarification and confirmation on selected issues**.

2. **The authorities completed all prior actions**. Prior actions on improving macroeconomic management, addressing weaknesses in public financial management and governance, and safeguarding the central bank's foreign exchange reserves were met before the staff report was submitted to the Board. Two remaining prior actions on bank supervision and central bank governance were completed on December 6, 2019.

3. **The latest fiscal report submitted shows improvements in fiscal cash control**. Staff note that the authorities are staying within the available resources. The strict segregation of duties between the Budget Department, which is responsible for making allotments, and the Fiscal Affairs Department, which is in charge of issuing cash release schedules based on up-to-date liquidity forecasts, is helping the authorities to align commitment expenditure to cash revenue.

4. **The Central Bank of Liberia (CBL) has sufficiently reduced its spending and is on track to meet the ceiling on the CBL's operational and capital spending**. The CBL's budget outturn for October and November show that it contained its spending to the agreed targets for those months. Among the measures the bank has implemented include laying-off about one-third of staff in October and November as well as renegotiation of procurement contracts to levels that are consistent with their revised budget.

5. **The CBL and the government signed an agreement that bundles all CBL credit to the government into a long-term bond that pays interest of 4 percent**. Following the confirmation of CBL credit to the government by an external auditor as of end October 2019, the two parties signed the agreement on December 6, 2019 for the amount of US$487 million. Together with sufficient reduction in operational expenditure, this agreement implies that the CBL will earn sufficient income for its monetary policy operations during the program period.

6. **The process to print additional local currency is underway**. In response to the recent shortage of Liberian dollar banknotes, the authorities are in the process of ordering the printing of additional currency to stock-up the reserves. Although this has generated debate on whether to replace the whole currency, the authorities are committed to only

restrict the new printing to additional notes needed to meet demand. Meanwhile, the exchange rate appreciated to L189/US$ as of December 5, compared to L211/US$ at end-October, possibly in response to the recent tightening of macroeconomic policies and an acute shortage of Liberian dollar banknotes.

7. Financial sector liquidity shortages, however, have elevated downside risks to the end-December 2019 Net International Reserve (NIR) target, which was set ambitiously. Increased FX liquidity demand in recent weeks has resulted in a lower NIR than the target for end-December according to the latest data. Staff will monitor those movements closely.

Statement by Mr. Dumisani Hebert Mahlinza, Executive Director for Liberia, Mr. Kingsley Obiora, Alternate Executive Director, and Mr. Bernard Wleh Jappah, Advisor to the Executive Director
December 11, 2019

Introduction and Context

1. Our Liberian authorities appreciate the constructive policy dialogue with staff during recent negotiations for an Extended Credit Facility (ECF) arrangement. They broadly concur with the staff appraisal and policy recommendations.

2. Liberia has continued to face significant economic challenges emanating from a rapid decline in aid flows and a series of shocks including the commodity price slump. Widening current account deficits, huge fiscal deficit, growing inflation, the emergence of domestic arrears and a decline in FX reserves have all contributed to a general decline in economic activity. To address these challenges, the authorities developed the Pro-poor Agenda for Prosperity and Development (PAPD 2018-23). The PAPD aims to address poverty and unemployment, the human capital and infrastructure gaps, and promote the private sector as an engine of growth. To complement the PAPD, our authorities request Fund support to implement economic reform measures aimed at restoring macroeconomic stability under an ECF arrangement. The ECF will anchor policy implementation and unlock development finance to support realization of the objectives of the PAPD.

Recent Economic Developments and Outlook

3. Economic growth is expected to decline from 1.2 percent in 2018 to -1.4 percent in 2019, largely driven by slowing demand as reflected by slow credit growth and consumption. Looking ahead, economic growth will rebound to 1.4 percent by end 2020, reaching 5.5 percent by 2024, due to an increase in mining activity and higher agriculture and fisheries production.

4. Inflation increased markedly to 30 percent at end September 2019, from 21 percent recorded during the same period in 2018. The rise in inflation reflects a marked depreciation of the Liberian dollar and significant money supply growth. Going forward, inflation is expected to decline, reaching single digits in the medium term.

5. The external current account is projected to marginally improve from a deficit of 23.4 percent of GDP at end 2018 to 21.1 percent in 2019, reflecting modest expansion in gold and iron ore exports. However, this gain has been affected by a steep decline in remittances inflows. Consequently, reserves declined from 2.4 months of imports in 2018 to 2.1 months in the first half of 2019.

Fiscal Policy, Public Financial and Debt Management

6. To restore fiscal sustainability and bring the primary deficit to debt-stabilizing levels, the authorities are pursuing fiscal consolidation efforts underpinned by both revenue generation and expenditure control measures, as reflected in the FY 2020 budget. In this connection, the Liberia Revenue Authority (LRA) has stepped up enforcement with a view to raise revenue by a minimum of 3 percent of GDP over the medium term, in line with the key objectives of the Domestic Resource Mobilization Strategy (2018-2022). They have instituted targeted audits within key sectors; deployed electronic fiscal devices at major business entities to monitor sales; and migrated to phase 2 of the ECOWAS Common External Tariff (CET), which is expected to increase the average effective tax rate. In addition, they are modifying the revenue sharing ratio with State-Owned Enterprises (SoEs); and plan to increase the Goods and Services Tax (GST) rate and broaden its coverage, while streamlining exemptions.

7. On the expenditure front, the authorities have launched a comprehensive restructuring of the civil service wage system to create space for productive spending. In particular, they have taken steps to harmonize the wage bill across government departments, which is expected to reduce total compensation by 1 percentage point of GDP. This expenditure reduction occurs despite the absorption of over 4,000 health workers on the payroll, whose salaries were previously financed through donor projects. The salary rationalization, together with other ongoing efforts to contain non-productive expenditures including the centralization of civil service hiring, payroll management and record keeping, is expected to unlock resources for much-needed investment and social spending.

8. As part of an effort to restore credibility of the overall budget, the National Legislature passed amendments to the public finance management (PFM) Act in September 2019. To reduce domestic arrears, contain fiscal slippages, and improve reporting, the authorities have fully aligned the budget's business process with disbursement requirements of spending entities. To smoothen the seasonality of revenue flows and help meet short term cash requirements, they will initiate periodic sales of treasury bills and eliminate central bank financing during the program. Relatedly, a proposal on the establishment of a Treasury Single Account (TSA) will be submitted for Cabinet's endorsement in March 2020.

9. The authorities remain committed to ensuring long term debt sustainability. They have taken measures to eliminate central bank financing and the accumulation of new arrears. Going forward, they will adhere to the ceiling on non-concessional borrowing, limit contraction of loans on non-concessional terms, refrain from non-transparent collateralized agreements and ensure that new debt is contracted transparently. To contain fiscal risks and associated contingent liabilities, all SoE debt will be subjected to intense scrutiny and approval by the Debt Management Committee.

Monetary and Financial Sector Policies

10. The authorities remain committed to enhance the effectiveness of monetary policy. In this respect, the CBL introduced a new monetary policy framework in September 2019. The framework includes an expanded and modernize policy toolkit of interest-rate based instruments. The new monetary policy framework will help establish a yield curve, support effective financial intermediation and deepen the interbank market and financial markets. Furthermore, reserve requirement ratios for local currency deposits and FX have been harmonized and the amended Required Reserves Regulations to support implementation will be issued in December 2019. Going forward, the authorities will limit foreign exchange interventions to smoothening volatile market conditions, as well as supporting operations aimed at building reserves.

11. To support implementation of the new monetary policy framework and enhance the independence, governance and accountability of the Central Bank of Liberia, the authorities have completed amendments to the Central Banking Act. Building on this, all executive and non-executive Board members have been formally appointed and an Action Plan incorporating the recommendations of the Kroll Report and a recent review of IMF TA on currency management, has been updated for implementation. To strengthen internal controls, the authorities have engaged the services of a reputable audit firm to backstop the central bank's Internal Audit Department. The CBL has taken steps to develop risked-based approaches to AML/CFT supervision, with support from Fund TA.

12. To reduce the CBL's operational deficit and enhance its solvency and operational environment, the CBL has adjusted its 2020 budget downwards, including making significant double-digit cuts in wages and operating costs and shifted the currency composition of its spending, including on salaries. They plan to sign an MoU with the Fiscal authorities aggregating all existing debt into an interest-bearing long-term negotiable bond.

13. To ensure financial sector stability, the CBL will enforce compliance with reporting requirements, including for open FX positions and improve data quality. Currently, the CBL is working on a plan to address key recommendations from a recent IMF mission on Financial Soundness Indicators (FSI). They will conduct a detailed assessment of the credit quality of the banking system, underwriting standards and adequacy of provisioning levels by end June 2020. As a follow up exercise, an asset quality review (AQR) of the entire sector will be conducted. Furthermore, additional efforts will be made to address non-performing loans (NPLs) and strengthen guidelines on bank resolution. To strengthen operational guidelines on bank resolution, the authorities are amending the Financial institutions Act, which is expected to be legislated in September 2020.

Structural Policies

14. In furtherance of efforts to strengthen the governance framework on corruption and the need to align the local Penal Code with the United Nations Convention Against Corruption

(UNCAC), the authorities are planning to introduce, by the end of the current fiscal year, legislation that criminalizes bribery of foreign officials and illicit enrichment. To this end, they intend to legislate provisions for the establishment of a special fast-track court to prosecute corruption; amend the AML/CFT framework consistent with FATF recommendations; and strengthen the anti-corruption act in respect of asset declaration.

15. The Government continues to take steps to improve the business environment. In this vein, it has streamlined the business and property registration processes, while a new Customs Code will be enacted by June 2020 to help simplify customs administration. Foreclosures and cases from insolvencies are recording shorter durations for resolution. Furthermore, the authorities have extended the tenures of work permits and residence permits from one (1) to five (5) years, to provide further confidence to investors and other actors in the economy. These efforts complement the Land Rights Act, Whistleblower Protection Act, Freedom of Information Law, and the Power Theft Act, which are already in place. In the meantime, the Business Climate Working Group, launched in October 2018, continues to meet regularly to discuss ways to further improve the business climate.

16. The authorities are reviewing the public procurement space with the aim of strengthening public procurement regulations, while at the same time pursuing the launch of an e-Procurement platform that would facilitate performance monitoring for improved efficiency and transparency as well as engender compliance levels that are consistent with international best practice. They are upgrading the ICT infrastructure to improve interfacing of tax payment platforms, and to enhance data quality.

Conclusion

17. The authorities are convinced that full implementation of transparent and well-conceived policies articulated in the Memorandum of Economic and Financial Policies (MEFP), within the purview of an ECF arrangement, would lead to a positive medium-term outcome. They are committed to a frontloaded and credible fiscal adjustment path, supported by an appropriate monetary stance and a modernized monetary policy framework. These efforts will be complemented by ongoing and planned structural reforms to address governance gaps and improve the business environment. The authorities continue to value the Fund's policy advice and technical support and look forward to the approval of their request for an ECF by the Executive Board.