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LIBERIA

December 2021

THIRD REVIEW OF THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBERIA

In the context of the 3rd ECF Review, 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 November 24, 2021, following discussions that ended on October 13, 2021, 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 9, 2021.
- A **Statement by the Executive Director** for Liberia.

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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PRESS RELEASE

PR21/347

IMF Executive Board Completes the Third Review under the Extended Credit Facility for Liberia, and Approves US$23.64 Million Disbursement

FOR IMMEDIATE RELEASE

- The completion of the third review under the Extended Credit Facility (ECF) enables an immediate disbursement of US$23.64 million.
- Restoring macroeconomic stability to lay the foundations for sustainable inclusive growth and addressing weaknesses in governance remain the main program objectives.
- Economic activity is projected to expand by 3.6 percent in 2021, thereby restoring pre-pandemic levels, with prospects for solid medium-term growth provided the reform program remains on track.
- Liberia's share of the IMF's allocation of SDRs to its membership in August 2021 will be used to strengthen Liberia's international reserve position and to help finance its vaccination program and public investment projects.

WASHINGTON, DC – November 24, 2020: Today, the Executive Board of the International Monetary Fund (IMF) completed the third review under the Extended Credit Facility (ECF). The four-year ECF arrangement, with a total access of SDR 155 million (60 percent of quota or about US$214.30 million) was approved by the IMF Executive Board on December 11, 2019. Completion of the third review enables the immediate disbursement of SDR 17 million (US$23.64 million), bringing total disbursements under the arrangement to SDR 68 million (US$94.8 million). On August 23, 2021, Liberia received SDR 247.7 million (US$345.3 million) in the context of the general SDR allocation to the IMF's membership.

Program performance has been mixed, with a favorable fiscal outturn but delays in the implementation of the structural reform agenda. Despite the challenges from the COVID-19 pandemic, the authorities have kept the program broadly on track and maintained macroeconomic stability, with the fiscal deficit slightly declining to 4.2 percent of GDP thanks to higher grants, and inflation receding to 13 percent in 2020. While the economy contracted by 3 percent in 2020, for 2021, growth of 3.6 percent is expected, with the fiscal deficit declining further to 2.4 percent of GDP, and inflation reaching the single digits.

The Executive Board granted a waiver of nonobservance of the end-December 2020 quantitative performance criterion on net internal reserves on the basis of corrective action and a waiver of nonobservance of the continuous performance criterion on external arrears of the central government based on its minor nature.

Following the Executive Board discussion, Mr. Bo Li, Acting Chair and Deputy Managing Director, made the following statement:

“The economy is on track to rebound strongly next year, following the setback from the COVID-19 pandemic. The medium-term outlook is favorable and the authorities are committed to steadfast implementation of their macroeconomic stabilization and structural reform program.

“The authorities intend to use the new SDR allocation to strengthen the reserve position, increase spending on the vaccination program, support high-quality development projects, and retire expensive debt. Fiscal reforms should focus on containing wage bill, enhancing domestic revenue mobilization, improving the quality of public spending, and operationalizing a Treasury Single Account. The authorities are committed to refraining from monetary financing of the budget and non-concessional external borrowing. Timely publication of public procurement information and audits of the government’s Annual Financial Statements remains a priority.

“The accommodative monetary policy stance improves liquidity and supports the recovery. The upcoming currency changeover operation brings benefits but requires strong efforts to manage operational risks and the further elaboration of the time-bound implementation plan to ensure a smooth transition. Further efforts are needed to enhance the central banks’ independence, governance, and transparency.

“Strengthening and developing the financial sector remains a priority. Ongoing bank restructuring and the bolstering of the supervisory toolkit are welcomed measures. The authorities are committed to addressing the high levels of non-performing loans and weaknesses in the AML/CFT regime.

“Efforts to fight corruption are key to the success of the program and better development prospects for the country. While the recent improvements in transparency and the governance framework are welcome, more rigorous implementation of reforms would help to ensure tangible results. It will be important to accelerate structural reforms to improve the business climate for private sector development.”

Table 1. Liberia: Selected Economic Indicators (SEI), 2019-26

	2019	2020	2021		2022		2023	2024	2025	2026
	Est.	Est.	1st & 2nd Review	Proj.	1st & 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change)									
Real sector										
Real GDP	-2.5	-3.0	3.2	3.6	4.1	4.7	4.9	5.7	5.6	5.7
of which, Mining & panning	13.2	2.0	1.9	7.0	4.2	4.7	5.7	6.8	7.5	5.4
of which, Non-mining	-4.7	-3.8	3.5	2.9	4.1	4.7	4.7	5.6	5.2	5.7
Nominal non-mining per capita GDP (U.S. dollars)	554	529	527	584	537	618	625	655	686	723
Nominal GDP (millions of U.S. dollars)	3,080	3,037	3,107	3,426	3,247	3,698	3,847	4,143	4,464	4,810
Inflation										
Consumer prices (annual average)	27.0	17.0	9.8	8.4	7.0	11.5	8.3	5.4	5.0	5.0
Consumer prices (end of period)	20.3	13.1	8.0	9.7	6.0	12.3	6.4	5.0	5.0	5.0
Population (millions)	4.6	4.7	4.8	4.8	4.9	4.9	5.1	5.2	5.3	5.4
	(Percent of GDP)									
Central government operations[1]										
Total revenue and grants	27.4	31.2	29.2	30.7	28.8	28.9	28.0	28.5	28.2	27.7
Total revenue	13.9	15.8	15.3	17.8	16.6	17.2	17.4	17.4	17.7	17.9
Grants	13.5	15.3	13.9	12.9	12.2	11.7	10.5	11.1	10.5	9.8
Total expenditure	32.2	35.4	32.2	33.1	31.2	32.9	30.0	30.2	29.6	29.1
Current expenditure[2]	21.4	25.1	21.2	22.6	19.9	21.2	19.5	18.5	18.0	17.8
Capital expenditure	10.8	10.3	11.1	10.5	11.3	11.7	10.5	11.7	11.7	11.3
Overall fiscal balance, including grants[2]	-4.8	-4.2	-3.0	-2.4	-2.4	-4.0	-2.1	-1.7	-1.5	-1.4
Overall fiscal balance, excluding grants[2]	-18.3	-19.6	-16.9	-15.3	-14.5	-15.8	-12.6	-12.8	-12.0	-11.2
Total public debt	48.9	61.8	62.0	56.1	63.5	59.0	59.4	56.2	53.2	50.1
Public external debt[3]	35.2	40.9	42.8	38.3	45.2	38.1	38.7	37.4	36.8	36.3
Public domestic debt[4]	13.6	20.9	19.2	17.9	18.4	20.9	20.6	18.8	16.4	13.9
	(Percent, unless otherwise indicated)									
M2/GDP	20.9	25.5	22.3	24.6	22.6	23.6	24.2	24.2	24.2	24.2
Credit to private sector (percent of GDP)	15.3	16.4	16.1	16.4	16.2	16.6	17.2	17.3	17.3	17.4
Credit to private sector (annual percent change)	-11.3	5.5	4.0	12.7	5.1	9.4	7.9	8.1	8.2	8.2
	(Percent of GDP, unless otherwise indicated)									
External sector										
Current account balance										
including grants	-19.6	-16.3	-22.2	-17.9	-22.6	-18.9	-19.9	-19.9	-19.3	-18.3
excluding grants	-25.0	-23.7	-36.1	-23.7	-34.8	-24.1	-24.2	-24.6	-23.8	-22.5
Trade balance	-12.8	-12.9	-18.9	-12.6	-18.3	-10.8	-10.2	-9.4	-7.1	-4.3
Exports	17.5	20.0	14.9	23.1	14.9	23.3	23.7	23.2	24.3	26.3
Imports	-30.3	-32.9	-33.8	-35.7	-33.2	-34.1	-33.8	-32.6	-31.4	-30.6
Grants (donor transfers, net)	5.4	7.3	13.9	5.7	12.2	5.2	4.4	4.7	4.5	4.2
Gross official reserves (millions of U.S. dollars)	292	358	403	716	429	719	769	779	811	846
Months of next year's imports	2.2	2.3	2.9	4.4	3.0	4.2	4.3	4.2	4.2	3.8
CBL's net int'l reserves (millions of U.S. dollars)	27	0	70	392	75	362	401	444	504	575

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.

[2] Projections for 2022 include bank restructuring costs of 0.3 percent of GDP as expenditure.

[3] 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.

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

INTERNATIONAL MONETARY FUND

LIBERIA

November 9, 2021

THIRD REVIEW OF THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. Ensuring macroeconomic stability, providing a foundation for sustainable and inclusive growth, and addressing weak governance are the tenets of the ECF-supported program. The COVID-19 pandemic was a painful setback, but economic activity should recover by end-2021 and prospects for growth in 2022 are favorable. Prudent monetary and fiscal policies allowed inflation to decline into the single digits. The authorities are addressing disruptive currency shortages through a comprehensive currency changeover operation. While the SDR allocation provides timely room for supportive policies without compromising macroeconomic stability, the authorities remain committed to their reform program and generally continue to implement the necessary measures.

Program status. The IMF's Executive Board approved a four-year arrangement under the ECF in December 2019. The combined first and second review was completed a year later. Since then, Liberia also benefitted from a disbursement under the RCF, debt service relief from the CCRT, and an SDR allocation of SDR 247.7 million (10.5 percent of GDP). The current review is delayed because of the time needed for the authorities to progress on a critical mass of reforms that justifies the review's conclusion.

Program performance. With four out of six performance criteria and three out of five indicative targets met and delayed structural reforms, overall performance was mixed. Good revenue performance, prudent budget execution, better public financial management, and more transparent central bank operations are welcome. On the other hand, bank recapitalization is tardy, which led to the breach of the reserve accumulation target, the government incurred payment arrears, currency printing is delayed, and audits of government accounts remain incomplete.

Policy commitments. To bolster program performance, the authorities have taken corrective actions and made key commitments to ensure supportive fiscal policy within financial means, judicious use of the SDR allocation while protecting international reserves, an orderly currency changeover, and further bank restructuring. A flareup of the pandemic, operational challenges with the currency changeover, and headwinds for reform implementation in the runup to the 2023 elections are program risks.

Request. Staff supports the authorities' requests for (i) waivers for the non-observance of performance criteria, (ii) adjustors to performance criteria, (iii) completion of the third program review, and (iv) the disbursement of SDR 17 million (6.58 percent of quota).

Approved By
Catherine Pattillo (AFR) and Kevin Fletcher (SPR)

Discussions were held virtually (April 8-May 18, 2021 and October 6-13). The staff team comprising Mr. Klingen (head), Messrs. Matsumoto, Jenya, and Molise (all AFR), and Ms. Kamali (SPR), Ms. Lattie (MCM), Mr. Abdychev (Resident Representative), and Mr. Deline (Economist, Resident Representative Office) exchanged information and held discussions with Minister of Finance and Development Planning Tweah, Central Bank of Liberia Executive Governor Tarlue, and other senior government and central bank officials, and development partners. Ms. Jain provided research support and Mr. Magno assisted the team in the preparation of this report.

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CONTEXT

1. **The midterm elections in December 2020 were a setback for President Weah's government**. The ruling Coalition for Democratic Change lost six senate seats, now occupying only seven out of thirty, and is coming under mounting pressure to deliver on its Pro-Poor Agenda for Prosperity and Development (PAPD). The authorities remain committed to their economic reform program. The presidential and parliamentary elections in October 2023 could engender a welcome boost to investment but could also complicate implementation of difficult reforms.

2. **The COVID-19 pandemic appears well contained in Liberia** (Box 1). As of October 2021, some 5,800 COVID-19 infections and 280 deaths had been reported and the wave this summer was quickly quelled. Daily life has largely returned to normal. Some 4.7 percent of the population have been vaccinated and enough vaccines for 34 percent have been committed.

RECENT ECONOMIC DEVELOPMENTS

3. **Economic activity is on course to reach pre-pandemic levels this year**. Authorities and staff expect real GDP growth of 3.6 percent this year, after the 3 percent contraction in 2020, reflecting the lifting of lock-down measures and firmer prices for iron ore exports. The inflation rate receded into the single digits in the wake of cautious monetary policy, budgets free of monetary financing, a shortage of Liberian dollar (LD) banknotes, and strong remittances. The Central Bank of Liberia (CBL) lowered policy interest rates by 500 bps in May 2020 in response to the pandemic and again in August 2021 to account for the fall in inflation, bringing it to 20 percent. The authorities also decided to address the LD currency shortages through a complete changeover to a new family of banknotes and coins, rather than reprinting the existing series as earlier envisaged. The SDR allocation to Liberia (SDR 247.7 million or 10.5 percent of GDP) boosted international reserve coverage from 2.6 to 4.7 months of imports. The current account deficit declined by some 2 percent of GDP from 19.4 percent of GDP in 2019 mainly on account of firmer net remittances.

4. **Public finances in the fiscal year July 2020 – June 2021 benefitted from revenues holding up well during the pandemic**. Income taxes profited from the monetization of benefits in the public sector, as well as other changes to its application, trade taxes did well on account of administrative improvements and strong imports, fuel excise taxes were raised, and Liberia received higher-than-usual budgetary grants. To weather the fallout from the pandemic, the government reprioritized spending and, while supplementary budgets authorized additional spending, the fiscal balance was US$36 million (1 percent of GDP) stronger than programmed. Government deposits at the CBL rose by US$30 million (0.9 percent of GDP), which are available for drawdown in the next budget.

Table 1. Liberia: Statement of Budgetary Central Government Operations, FY2021

(US$ million)

	Jul.-Dec. 2020		Jan.-Jun. 2021		Jul. 2020 - Jun. 2021	
	1st & 2nd Review	Actual	1st & 2nd Review	Est.	1st & 2nd Review	Est.
Total revenue including grants	233	257	267	327	500	584
Domestic revenue	197	230	241	293	438	522
Tax	158	187	194	236	352	423
Non-tax	39	43	47	56	86	99
Grants (budget support)	36	27	26	34	62	62
Expense	220	256	266	299	486	555
Compensation of employees	143	146	149	154	292	300
Interest payment	14	16	14	10	27	27
Goods and services	44	57	72	105	116	162
Subsidies and grants[1]	19	34	31	29	50	63
Social benefits	1	1	1	1	1	2
Net operating balance (+surplus/-deficit)	13	2	1	28	14	29
Gross investment in nonfinancial assets	6	1	6	2	12	3
Overall balance = net lending/borrowing	7	1	-5	25	2	26
excl. grants	-29	-26	-31	-9	-60	-35
Primary balance	21	17	8	36	29	53
excl. grants	-15	-10	-18	1	-33	-9
Financing	7	0	-5	25	2	25
Transactions in Financial assets	22	30	-18	0	4	30
Deposits	22	30	-18	0	4	30
Loans (policy lending)	0	0	0	0	0	0
Transactions in liabilities	15	30	-13	-25	2	5
External (net)	46	32	13	28	60	60
Disbursement	51	38	20	33	71	71
Repayment	-4	-6	-7	-5	-11	-11
Domestic (net)	-31	-2	-14	-27	-45	-28
Domestic borrowing	0	5	0	0	0	5
Repayment[2]	-31	-7	-14	-27	-45	-33
Accounts payable	0	0	-12	-26	-12	-26
Statistical adjustment	0	-1	0	0	0	-1

Sources: Liberian authorities; and IMF staff estimates.

[1] Jan.-Jun. 2021 estimate includes US$11.9 million bank restructuring costs.

[2] Jan.-Jun. 2021 estimate includes US$3.5 million bank restructuring costs.

Box 1. Liberia: Evolution of the COVID-19 Pandemic and Policy Responses

Since the first COVID-19 case in Liberia was reported in mid-March 2020, the total number of cases grew to 2,114 through May 2021 before a new wave of cases hit the country in June 2021. Currently, the total number of cases stands at 5,800, or 1,113 per million. While the low case load may partly reflect limited testing focused on travelers, the absence of widespread hospitalizations and the relatively low reported death count of 286 speaks to the pandemic's contained health impact.

In late March and early April 2020, the Liberian authorities put in place containment measures, including stringent social distancing and hygiene, mandatory face masks, closure of the international airport, suspension of in-person school classes, and administrative leave for non-essential public sector workers. Most measures were lifted starting late July 2020. To deal with the wave in June 2021 the government promptly reinstated temporary measures that proved to be effective. By end-summer, the daily number of cases declined to almost zero.

The authorities sought to alleviate the economic fallout from the containment measures. They simplified import procedures and the Central Bank of Liberia reduced the monetary policy rate by 500 bps, allowed some regulatory forbearance for three months on asset classification, provisioning, and lending policies for hard-hit sectors, and suspended charges for most electronic and point-of-sale payments. Public spending rose by 5.6 percent of GDP in FY2020 and FY2021 combined, with a focus on healthcare, including support to health care workers, necessary equipment, and laboratory supplies, food aid to vulnerable populations, and cash transfers to households.

COVID-Related Measures

	FY2020		FY2021	
	US$ millions	Percent of GDP	US$ millions	Percent of GDP
Health	12.3	0.4	0.0	0.0
Social	46.0	1.5	40.4	1.3
incl. food distribution			25.0	0.8
Other Covid-related spending	18.4	0.6	55.9	1.8
Covid prevention, containment and mgmt	9.2	0.3	18.6	0.6
Transfers to HHs	3.1	0.1	31.1	1.0
Transfers to businesses, SOEs, gov.entities	6.1	0.2	6.2	0.2

The international community helped finance the crisis response. The disbursement under the IMF's Rapid Credit Facility in June 2020 allowed allocating US$25 million to food distribution implemented by the World Food Program, though delivery suffered delays because enumerating vulnerable households proved time-consuming. In March and April 2020, the World Bank provided US$17 million in project aid for the health sector and enhanced regional disease surveillance. US$14 million in budget support came from the African Development Bank as part of its multi-country COVID-19 response. The governments of the U.S. and Japan in partnership with UN agencies have also provided financial assistance to strengthen prevention, testing capacities, and vaccination efforts. The government is also seeking support from the World Bank.

The WHO set the target of vaccinating 40 percent of the population by end-December 2021 and 70 percent in 2022. The COVAX initiative targets vaccinating 30 percent of the population (1.5 million). Under the initiative, 192,000 doses of Astra Zeneca (AZ) vaccines and 302,400 of J&J vaccines (with the U.S. support) have been delivered. By end-year, additional 96 thousand of AZ and 183 thousand of Pfizer vaccines are expected with additional option of obtaining 137 thousand of Pfizer vaccines. The African Vaccine Acquisition Trust (AVAT), the African Union's initiative, has pledged 386 thousand doses of J&J vaccines, of which 108 thousand were received in September. The authorities had initially estimated that the vaccination of 11 percent of the population was achievable by August 2021, but with supply delays and vaccine hesitancy 230 thousand people (4.7 percent of the population) were vaccinated by mid-October.

The costs of vaccinating the initial 30 percent of the population are estimated at 0.9 percent of GDP, to be financed by COVAX. Reaching the 70-percent vaccination target would require additional financing equivalent to 1.2 percent of GDP. While the authorities hope all vaccination costs will be covered by donors, they are allocating US$10 million (0.3 percent of GDP) for vaccinations and their administration in the 2022 budget.

Liberia: Costs of Vaccination of Population[1]
(in percent of GDP)

	First 30 percent of population	Next 40 percent of population	70 percent of population
Vaccine (two doses) and transportation	0.69 [2]	0.92	1.61
Climate-sensitive cold chain	0.03	0.05	0.08
Supply chain (in country)	0.06	0.08	0.14
Service delivery (in country)	0.15	0.20	0.34
Total costs to vaccinate	**0.93**	**1.24**	**2.17**

[1] Based on average costs for each component.
[2] To be covered under the COVAX Initiative.

OUTLOOK AND RISKS

5. **The economic recovery should further strengthen in 2022**. Authorities and staff concurred that real GDP growth should reach 4.7 percent. On top of the tailwinds from the global economic rebound from the pandemic, other important domestic factors are at play. In the mining sector, major investments to expand iron ore extraction are getting underway and the artisanal gold sector is already experiencing a boom. Fiscal policy will be expansionary with the government determined to sharply raise investment. A planned buyback of treasury bonds currently held by banks will give them the means to better finance the economy. The authorities also expect a confidence boost from the currency changeover that will end cash shortages and allow the retirement of the large number of unfit banknotes.

6. **In the medium-term Liberia should gradually reap the benefits from its reform efforts**. With good policies, the Liberian economy clearly has the potential of growing by more than 5 percent, considering that population growth of 2.5 percent alone should make a considerable contribution. If the authorities steadfastly implement their national reform program substantial per-capita GDP growth is within reach. The iron ore mining project alone will span three years of heavy investment, followed by an eventual tripling of production.

7. **Risks to baseline projections are tilted to the downside**. While growth this year and next could exceed expectations in the confluence of post-pandemic rebound, supportive policies, and payoff from reforms, the authorities and staff saw overall more downside risks. These relate foremost to the uncertain course that the COVID-19 pandemic could take globally and locally, with the rollout of vaccination in sub-Saharan Africa taking time. Staff also pointed to the risk that the currency changeover could become disorderly should operational capacities be overwhelmed. The authorities underscored their strong efforts to mitigate such risks. Implementation of critical parts of the reform agenda could lose momentum or experience setbacks as the elections draw closer.

PROGRAM PERFORMANCE

8. **Overall program performance against performance criteria (PCs), indicative targets (ITs), and structural benchmarks (SBs) has been mixed** (MEFP ¶5-8 and Tables 1 and 3).

- **Three out of four quantitative performance criteria for end-December 2020, and one out of two continuous performance criteria for the third review, were met**. Thanks to a favorable revenue performance, the targets for the primary fiscal balance and government borrowing from the CBL were observed. The CBL itself also stayed within limits for operational and capital expenditures. The government refrained from non-concessional external borrowing. However, the accumulation of net international reserves (NIR) fell short, mainly because of delays in bank recapitalization, hindering the bank's repayments of foreign-currency loans to the CBL, and delays in the production of LD banknotes, hindering foreign currency purchases from the government. The government also incurred external payment arrears in the second quarter of 2021 when a very small amount of external debt service was made outside the grace period due to a clerical error.

- **Three out of five ITs for the third review have been observed**. At end-December 2020, fiscal revenues exceeded the program floor, low base money growth in the wake of the LD cash shortage kept the CBL's net domestic assets (NDA) well below the permissible amount, and social spending was sufficiently strong. However, capital spending was well below target, due to the pandemic-related reprioritization of expenditure, and the government incurred domestic payment arrears during 2021 when it serviced its debt late, breaching the continuous IT.

- **Amid pandemic-related disruptions and capacity constraints, the implementation of the structural reform agenda saw delays**. Out of ten SBs for the third ECF review only two were met, namely the compilation of a tax exemption inventory and the furnishing of compliance reports on foreign-currency withdrawals to the CBL's Board of Governors. Reforms under four SBs have meanwhile been implemented with delay. They pertain to salary suspensions for government employees without biometric ID, the conducting of external audits of the CBL's foreign exchange position, upgrading vault security at the CBL, and preparations for the establishment of a Treasury Single Account (TSA). Considerable progress has been made toward another two SBs related to vault security and strengthening anti-corruption legislation. However, the audits of the government's annual financial audit reports for FY2021 are not quite ready for publication yet and the production of compliance reports for CBL's board awaits the establishment of institutional arrangements.

9. Bank restructuring and the printing of LD banknotes have fallen behind schedule. Implementation of bank recapitalization and reform plans has not yet advanced to the point where all major banks can be deemed on a durably sound footing. Plans to reprint LD currency to address cash shortages and gradually replace unfit banknotes have changed to a full-fledged currency changeover, which takes longer, is more costly, and lays enormous implementation challenges at the CBL's door.

10. Performance against end-June targets, which will be assessed for the fourth ECF review, has likewise been mixed.[1] Based on preliminary data, fiscal targets were all met, except for the floor on capital spending. The domestic arrears that had accumulated in early 2021 were cleared by the test date. The PC on NIR was missed, as the corrective actions, namely bank recapitalization and currency changeover, will only have gained sufficient traction toward end-2021. Four SBs are delayed and are proposed to be reset, but the authorities are committed to still implement them for the fourth review. They pertain to the establishment of the TSA, the submission of the Financial Institutions Act to the Legislature, the destruction of unfit banknotes, and the issuances of guidelines for risk-based supervision guidelines.

[1]The final assessment of end-June 2021 PCs will be provided at the fourth ECF review, completion of which will enable the fifth disbursement, which becomes available on or after December 1, 2021.

POLICY DISCUSSIONS

Discussions focused on (i) reaching understandings on prudent budgets for the rest of 2021 and 2022, as well as use of the SDR allocation; (ii) mitigating risks associated with the currency changeover while ensuring the timely injection of cash; (iii) strengthening financial stability; and (iv) addressing governance issues and other obstacles to durably strong growth.

A. Fiscal Policies and Use of SDR Allocation

11. **The Legislature approved an achievable budget for the second half of 2021 free of monetary financing**. This special budget covers only the period July-December 2021 to align fiscal and calendar years from 2022 onward. The signing of a new mining concession secured the government payments of US$65 million (1.9 percent of GDP), of which US$30 million (0.9 percent of GDP) will be disbursed this year. Favorable iron ore prices augur well for royalty receipts. The government will also push for higher dividend payments from SOEs, especially the Liberian Maritime, Telecom, and Port Authorities. The special budget will also draw down government deposits at the CBL to compensate for the lack of budget support. Overall, this allows a substantial increase in capital spending, a contribution toward the costs of the currency changeover, and some relaxation of the extremely tight operational budgets of the last three years. The wage bill is kept flat in nominal terms, in line with the medium-term objective to gradually shrink its outsized claim on public recourses. The Legislature left the planned increase of the sales tax rate pending so as not to imperil the recovery from the pandemic. Nonetheless, revenue performance and budget expenditure so far suggest that the envisaged overall balance—and a small deficit of 0.3 percent of GDP when bank recapitalization costs are included—is achievable. As additional safeguard, the Ministry of Finance and Development Planning (MFDP) reaffirmed its commitment to keep budget execution aligned with available resources at all times.

12. **Authorities and staff concurred that the SDR allocation to Liberia should go toward both strengthening Liberia's international reserves and priority budgetary spending**. Of the SDR 247.7 million (10.5 percent of GDP), enough will be retained at the CBL to keep the reserve cover at a minimum of 4 months of imports. Accordingly, US$80 million (2.2 percent of GDP) could be on-lent to the government in 2022, with the possibility of additional tranches in subsequent years, depending on reserve developments. All associated spending will be transparently reflected in the 2022 budget and the on-lending itself will be governed by a Memorandum of Understanding (MoU) between the CBL and the government. On-lending will occur quarterly. The CBL will be reimbursed from the budget for any interest charges by the IMF for the part of the allocation that is on-lent to the government. Program targets accommodate on-lending only to the extent that it goes toward priority areas, as further explained below. In particular, the fiscal balance target tightens one-to-one with underspending in these areas.

13. **The MFDP plans to submit a budget for 2022 that sharply raises investment and allows a small deficit made possible by the SDR allocation**. The underlying revenue mobilization effort will remain strong, although collections as a percent of GDP will somewhat decline due to

waning special effects, including lower receipts from the signing of mining concessions and lower royalties as iron ore prices recede. On the spending side, the wage bill will remain again flat in nominal terms, goods and services spending will grow in line with GDP, and another contribution to the currency changeover is provided for. The on-lending of the SDR allocation allows (i) setting up to US$10 million aside for the purchase of COVID-19 vaccines and their administration; (ii) retiring up to US$35 million in treasury bonds currently held by banks to save on high interest costs and foster more bank lending; and (iii) augmenting public investment by US$35 million to reach US$98 million (2.7 percent of GDP). IMF staff is working with the authorities to ensure that capital spending is of high quality as the public investment program for 2022 is finalized. This implies an overall fiscal deficit of 0.8 percent of GDP, which is financeable without recourse to direct credit from the CBL other than the SDR on-lending operation.

14. Stronger domestic revenue mobilization is key for financing Liberia's large development needs. The authorities have compiled a tax exemption inventory and an ad-hoc inter-ministerial committee produced a tax expenditure report for border taxes. Building on this effort, the MFDP will enhance the reporting system for all tax expenditures, which will allow compiling a full tax expenditure report to be annexed to the 2023 budget, and it will draw up a list of exemptions to be streamlined (***proposed SB*** for end-June 2022). Furthermore, the Liberian Revenue Authority (LRA) is establishing a Statistical and Data Analysis Unit with technical assistance (TA) from the IMF to ensure proper mapping of taxpayers, tax types, and tax accounts to improve its capacity to fight tax evasion. The LRA has also intensified tax audits to improve the collection of tax arrears, more secure excise tax stamps will come to the market in the next few months, and the MFDP publicly announced that value added taxes would replace sales taxes by 2025.

15. Much improved public financial management (PFM) practices should be built upon. The resumption of regular meetings of the Liquidity Management Committee and the Treasury Management Committee, financial budgets better aligned with available resources, the cleanup of the public payroll, wider use of the integrated financial management information system (IFMIS), and the move to quarterly reconciliation are important achievements to be closely guarded going forward. The government is committed to avoiding the recurrence of arrears on debt service by issuing payment orders to the CBL well in advance and authorizing it to utilize resources outside the debt service account if necessary. To further strengthen expenditure control, the MFDP will issue a circular to make it mandatory for government contracts to be accompanied by IFMIS-generated purchase orders to be valid (***proposed SB*** for end-December 2021). They will push ahead with making the TSA fully operational by finalizing its account structure and closing the accounts of all pertinent ministries, agencies, and commissions (MACs) at commercial banks and transferring the balances to the TSA (***proposed SB*** for end-December 2021). The authorities are also working toward integrating the finances of the Liberian Telecom Authority and the Liberian Maritime Authority into the central government budget and are seeking higher dividend payments in the interim.

Text Table 1. Liberia: Statement of Budgetary Central Government Operations CY2021
(US$ million)

	Jan.-Jun. 2021	Jul.-Dec. 2021	Jan.-Dec. 2021
	Est.	Approved Special Budget	Revised Proj.
Total revenue including grants	327	318	645
Domestic revenue	293	318	610
Tax	236	229	465
Non-tax	56	89	145
Grants (budget support)	34	0	34
Expense	299	284	583
Compensation of employees	154	150	305
Interest payment	10	19	30
Goods and services	105	66	171
Subsidies and grants[1]	29	43	72
Social benefits	1	5	6
Net operating balance (+surplus/-deficit)	28	34	62
Gross investment in nonfinancial assets	2	30	32
Overall balance = net lending/borrowing	25	4	29
excl. grants	-9	4	-5
Primary balance	36	24	59
excl. grants	1	24	25
Financing	25	4	29
Transactions in Financial assets	0	-35	-35
Deposits	0	-35	-35
Loans (policy lending)	0	0	0
Transactions in liabilities	-25	-39	-64
External (net)	28	-16	12
Disbursement	33	0	33
Repayment	-5	-16	-21
Domestic (net)	-27	-23	-50
Domestic borrowing	0	0	0
Repayment[2]	-27	-23	-50
Accounts payable	-26	0	-26

Sources: Liberian authorities; and IMF staff estimates.
[1] Jan.-Jun. 2021 estimate includes US$11.9 million bank restructuring costs.
[2] Jan.-Jun. 2021 estimate includes US$3.5 million in bank restructuring costs. The approved special budget includes US$15.6 million in bank restructuring costs.

16. Debt vulnerabilities are similar to those identified in the December 2020 Debt Sustainability Analysis. Debt distress indicators for external debt do not cross thresholds that would indicate high-risk, but external borrowing space is limited. Total public debt is found to be sustainable given the authorities' commitment to prudent fiscal policy going forward and because much of it is owed to the CBL at reasonable interest rates, but nonetheless, the present value of total public debt relative to GDP is high and risks of debt distress accordingly deemed high. The authorities reaffirmed their commitment to refrain from central bank borrowing, non-concessional external borrowing, and non-transparent modes of budget financing, such as advance payments from large taxpayers. The authorities remain committed to debt transparency, in line with the new requirements under the IMF's Debt Limit Policy (Text Table 3).

Text Table 2. Liberia: Decomposition of Public Debt and Debt Service by Creditor, 2022[1]

	Debt Stock (end of period) 2020			Debt Service 2020	2021	2022	2020	2021	2022
	(In US$)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total	1,877,317,966	100.0	61.8	83,296,001	113,979,240	147,144,608	2.7	3.3	4.0
External	1,241,127,354	66.1	40.9	52,116,848	67,784,998	72,101,862	1.7	2.0	1.9
Multilateral creditors[2]	1,128,447,605	60.1	37.2	45,318,433	60,329,762	62,774,005	1.5	1.8	1.7
IMF	288,161,700	15.3	9.5						
World Bank	546,654,618	29.1	18.0						
ADB/AfDB/IADB	177,852,446	9.5	5.9						
Other Multilaterals	115,778,842	6.2	3.8						
o/w: European Investment Bank	49,310,645	2.6	1.6						
Arab Bank for Economic Development in Africa	26,726,022	1.4	0.9						
Bilateral creditors[2]	112,679,748	6.0	3.7	3,703,305	3,658,711	4,517,313	0.1	0.1	0.1
Paris Club	-	0.0	0.0	-	-	-	0.0	0.0	0.0
Non-Paris Club	112,679,748	6.0	3.7	3,703,305	3,658,711	4,517,313	0.1	0.1	0.1
o/w: China EXIM Bank	49,538,553	2.6	1.6						
Government of Saudi Arabia	36,903,708	2.0	1.2						
Bonds	-	0.0	0.0	-	-	-	0.0	0.0	0.0
Commercial creditors	-	0.0	0.0	-	-	-	0.0	0.0	0.0
Other international creditors	-	0.0	0.0	-	-	-	0.0	0.0	0.0
Domestic	636,190,612	33.9	20.9	31,179,153	46,194,242	75,042,745	1.0	1.3	2.0
Held by residents, total	636,190,612	33.9	20.9	31,179,153	46,194,242	75,042,745	1.0	1.3	2.0
Held by non-residents, total	-	0.0	0.0	-	-	-	0.0	0.0	0.0
T-Bills	35,000,000	1.9	1.2	1,208,976	4,073,334	38,471,246	0.0	0.1	1.0
Bonds	543,387,627	28.9	17.9	23,208,570	25,200,176	26,252,331	0.8	0.7	0.7
Loans	57,802,985	3.1	1.9	6,761,607	16,920,733	10,319,168	0.2	0.5	0.3
Memo items:									
Collateralized debt[3]	-	0.0	0.0						
o/w: Related	-	0.0	0.0						
o/w: Unrelated	-	0.0	0.0						
Contingent liabilities	-	0.0	0.0						
o/w: Public guarantees	-	0.0	0.0						
o/w: Other explicit contingent liabilities[4]	-	0.0	0.0						
Nominal GDP	3,037,255,511			3,037,255,511	3,426,123,521	3,698,409,066			

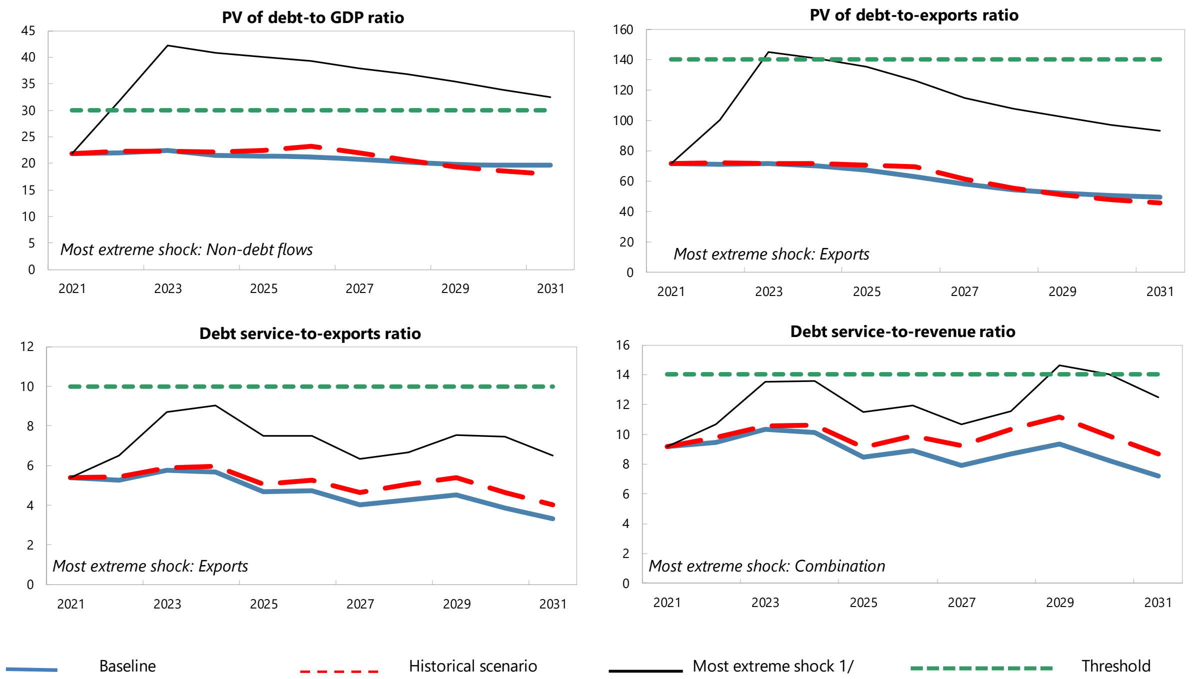
1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/ Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Figure 1. Liberia: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2021-2031



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	n.a.	n.a.
Commodity price 2/	n.a.	n.a.
Market financing	n.a.	n.a.

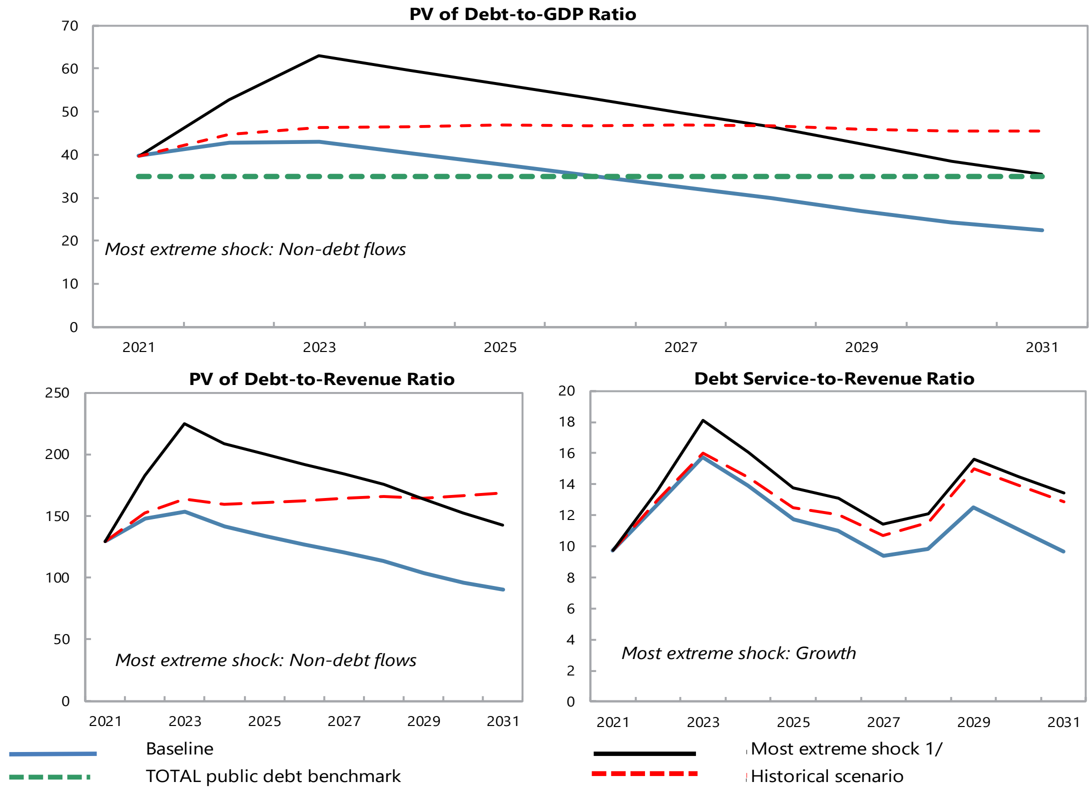
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

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	1.0%	1.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	6	6

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

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. 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, 2021-2031



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	103%	100%
Domestic medium and long-term	-2%	0%
Domestic short-term	-1%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.0%	1.0%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.4%	3.4%
Avg. maturity (incl. grace period)	10	10
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	9.2%	9.2%

* 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 2031. 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

B. Monetary Policies

17. Addressing LD cash shortages is program critical but doing so through a comprehensive currency changeover is risky. Without sufficient currency it is difficult to achieve de-dollarization, strengthen international reserves through foreign-currency purchases, and secure financial stability. The authorities explained that broad consensus had developed around replacing the entire currency stock with a new banknote family and coins to boost confidence. They also reaffirmed their commitment to price stability and refrainment from monetary financing of the budget. Staff is concerned about operational risks associated with the handling of around one billion currency pieces in a low-capacity environment, delays in bringing additional cash to market, and the high costs of the operation (1.3 percent of GDP). It would have been preferrable to reprint the existing currency as previously envisaged. With the decision in favor of a new banknote family meanwhile irreversible, staff and technical experts have worked with the CBL on risk mitigation strategies.

18. Authorities and staff established a set of principles for the implementation of the changeover. The pace of the operations needs to be adequate, with the first cash injection coming before the seasonal peak demand in December to avoid another cash crunch but with otherwise gradual implementation so as not to overwhelm capacities. Accordingly, a small emergency order for the delivery of one denomination of the new banknote family in November has been placed and requests for proposals for the remaining banknotes and coins have been issued. Roughly half of these pieces will be delivered in the second half of 2022, with the rest arriving in Liberia only in 2024 as the Legislature disallowed deliveries in the election year 2023. The pace of deliveries, infusion, withdrawal, and destruction will be closely managed to navigate the multiple bottlenecks, especially in terms of storage and capacity to process the return flow of old currency. Co-circulation of old and new currency will be allowed until end-2024, the operation will rely on existing time-proven institutional arrangements to the extent possible, and commercial banks will be fully engaged in the process. As a **prior action** for this review, the CBL's Board of Governors is adopting a time-bound implementation plan based on these principles. Fully leveraging recent governance improvements at the CBL will be important to execute the changeover according to the required standards regarding due process, transparency, and accountability.

19. The authorities and staff saw the monetary policy stance as appropriate. The shock from the pandemic and the rapid disinflation justified the recent interest rate cuts. With monetary transmission mechanisms tepid, the amount of cash in circulation remains a powerful driver of price developments. In this context, staff advised the CBL to closely monitor monetary aggregates and other indicators as the currency changeover gets underway. There was consensus that a moderate rise in inflation was likely as the cash crunch is alleviated but that the medium-term disinflation trend will remain intact thanks to prudent macroeconomic policies. While the treasury bond planned buyback will inject liquidity, the overall monetary program is calibrated so that monetary aggregates support projected growth and inflation. Once the currency changeover is smoothly underway, the CBL agreed that the required reserve ratios for US$ and LD deposits should be unified. Staff also underscored that the use of CBL bills should be strictly reserved for adjusting monetary policy rather than becoming a tool for capital market development or attracting capital flows from the diaspora.

20. Governance and transparency arrangements at the CBL are improving, but more work is needed. Progress includes improving the quality of monetary data, strengthening operational oversight and security in the currency management area, and adhering to procedures for the opening and closing of government accounts. External audits of the CBL's foreign exchange reserves for end-December 2020 and end-June 2021 have been finalized. The CBL is following up on the findings. The authorities expressed commitment to tackle outstanding issues identified in the safeguards assessment over the next 6-12 months. This concerns in particular, making the compliance function operational to foster the bank's compliance culture, enhancing internal audit reporting, and implementing the new policies that govern accounting procedures and reconciliations. Compliance reports will be submitted to the Board of Governors starting from the first quarter of 2022 (***proposed SB***, reset from the fourth quarter of 2020). Semi-annual external audits of the foreign exchange reserves, the co-sourcing of internal audit, and the monitoring of the CBL's budget should continue. The external audit report of the CBL's financial statements for 2020 has been submitted to CBL management for review. An interim audit for the period that ended September 2021 is underway, which should help ensure that the 2021 external audit can be completed on time.

C. Financial Sector Policies

21. The financial sector remains challenged. The banking system as a whole is compliant with prudential capital and liquidity requirements, but some institutions are falling short. The authorities and staff concurred that they should remain under enhanced supervision and that updated restructuring plans should be further implemented expeditiously. Staff encouraged the CBL to consistently apply penalties for violations of reserve requirements and welcomed the waiving of levies on mobile money transactions. The regulatory environment will also be strengthened by the revised Financial Institutions Act, which would inter alia introduce a comprehensive resolution regime. The authorities are committed to submitting it to the Legislature at end-February 2022 (***proposed SB*** reset from end-June 2021) and subsequently issue operational guidelines for the effective functioning of the comprehensive resolution regime by end-April 2022 (***proposed SB*** reset from end-June 2021). An organizational unit tasked with the development and execution of resolution strategies for financial institutions will also be established by end-May 2022 (***proposed SB*** reset from end-June 2021). Risk-based supervision guidelines will be issued by end-April 2022 (***proposed SB*** reset from end-June 2021).

22. The authorities and staff remain concerned about the high levels of non-performing loans (NPLs). The system NPL ratio stood at 23 percent in June 2021 with considerable variation across institutions and sectors. The trade, services, and construction sectors are disproportionately affected. While the fallout from the pandemic explains much of the rise, the high levels of low-quality loans are also reflective of inadequate credit administration and poor underwriting standards. The CBL has conducted asset quality reviews for most banks, has held training events on underwriting standards, and has started to scrutinize banks' NPL resolution strategies. The CBL has asked banks to strengthen the recovery plans that they had presented. Implementation is being closely monitored and followed-up with banks' senior management.

23. The authorities are keen on addressing weaknesses in the AML/CFT regime to shore up Liberia's international standing. New legislation, prepared in collaboration with regional and international partners, is on course to be passed by the Legislature before year-end. It will establish a National Coordination Committee, which will develop a coherent strategy for implementation and oversight of the revised laws and regulations. In September, Liberia published its updated National Risk Assessment. The CBL is also developing risk-based AML/CFT supervisory tools with IMF technical support.

D. Governance Issues

24. The authorities reaffirmed their commitment to enhance the governance framework. Since the inception of the ECF-supported program, considerable progress has been made in strengthening processes and improving transparency, notably in PFM. More reforms are in the pipeline, though some of them have fallen behind schedule and are not as strong as originally envisaged.

- Drafts of the Whistleblower and Witness Protection Act, the Liberia Anti-Corruption Commission (LACC) Act, and amendments to the Code of Conduct have been passed by the Legislature's lower chamber and the authorities commit to their adoption no later than end-January 2022 (***proposed SB*** reset from end-March 2021). The draft LACC Act gives the LACC first-tier prosecutorial powers, puts it in charge of running the asset declaration system, and authorizes it to recommend sanctions for non-compliance. Regarding public access to declarations, unconditional access would not have garnered the required support in the Legislature because of privacy concerns and possible conflicts with the Constitution according to the authorities. Instead, amendments to the Code of Conduct provide for access by court order, with rulings guided by the Freedom of Information Act. Staff noted that provisions regarding sanctions and public access fall short of best practices but acknowledged that the legislation improves upon the status quo.

- The Public Procurement and Concessions Commission (PPCC) has published all large public procurement contract awarded in FY2020, along with key information on winning companies and their legal owners, which are also beneficial owners to the best of its knowledge. The posting of contracts and key information pertaining to FY2021 is now underway. The PPCC has committed to henceforward collect and publish information on beneficial ownership from firms bidding on public procurement contracts and provide beneficial ownership information on the past contracts to the extent feasible. The timely publication of procurement information is often hampered by long delays in the submission of the required documentation by MACs. The MFDP pledged to use its leverage to accelerate the process. An e-procurement system envisaged to become operational in late 2022 should allow comprehensive and real-time tracking of all procurement activity. Since January 2021, 21 compliance audits, including on procurement procedures, have been completed.

- The publication of the audits of the government's Annual Financial Statements is progressing but still behind schedule. Since the last program review, those pertaining to FY2018 and FY2019 have been published, but the FY2020 draft statement is still under review at the MFDP and is now expected to be published by end-November 2021 (***proposed SBs*** reset from end-March 2021). The challenge with compiling timely and reliable financial reports remains incomplete documentation or delayed submission to the audit commission. The government launched an Electronic Document Management System last year, which should help ensure a better-quality report for FY2021.

25. Staff expressed concerns that despite the stronger governance framework improvement on the ground is slow in coming. The PAPD aims to achieve an improved country ranking by Transparency International but Liberia is sliding back. Local and foreign non-government sources lament widespread corruption. To strengthen implementation, the authorities are moving to revamp the LACC. The position of the chair has been filled and nominations of candidates for two other vacancies on the board are imminent.

E. Inclusive Growth

26. Promoting private sector development requires making the most of limited resources. The authorities appreciate that macroeconomic stability is key for economic development but underscored that it was only a necessary condition. Success also required closing Liberia's large infrastructure gaps and addressing deficits in human capital. Staff agreed and advocated drawing up a cohesive Public Investment Program encompassing the 10 percent of GDP in donor-financed investment and domestically-financed capital spending, which currently accounts for less than one percent of GDP. Expanding this tight envelope requires mobilizing more domestic tax revenues, securing additional donor financing, and keeping a tight rein on the wage bill. There is also room for achieving a more growth friendly spending composition by reallocating resources across MACs.

27. Authorities and staff agreed that business environment improvements ought to be a key plank in Liberia's pro-growth agenda. Unlike infrastructure investment, their implementation tends to require little financial resources and should hence be more easily attainable. There is a rich body of evidence on where businesses face obstacles from the 2019 business climate conference, a recent special session with a focus on the role of the judiciary, and other analyses. They include protracted registration procedures, excessive inspections, undue road check points, lack of e-filing of taxes, bottlenecks in obtaining construction permits and registering property, complicated port procedures, and lack of a modern credit bureau. The MFDP is committed to synthesize these insights and establish a log frame with concrete priority actions, milestones, and entities in charge of their implementation (**proposed *SB*** for end-March 2022).

PROGRAM MODALITIES

28. Staff supports the following requests by the authorities:

- **A waiver for the nonobservance of the floor on the change in the CBL's NIR in December 2020 on the basis of corrective action**. Bank recapitalization and currency changeover, which suffered delays that resulted in the breach, are now being implemented. NIR have meanwhile surpassed the levels targeted for end-December 2020.

- **A waiver for the nonobservance of the ceiling on external arrears of the central government, as the breach was minor**. It was due to clerical errors in the processing of external debt service payments. At less than US$3 million, the breach was very small, and arrears have meanwhile been cleared.

- **Introduction of adjustors to the PCs on the primary fiscal balance, NIR, and direct credit of the CBL to the government** to accommodate budgetary use of the IMF's SDR allocation to Liberia by up to US$80 million in 2022.

- **Introduction of an adjustor to the PC on the CBL's operational and capital expenses** to accommodate outlays for the currency changeover reimbursed by the government.

- The modification of SBs pertaining to the establishment of the TSA, the submission of the Financial Institutions Act to the Legislature, the destruction of unfit banknotes, and the issuances of guidelines for risk-based supervision guidelines.

29. Liberia's capacity to repay the Fund remains adequate, but the country's exposure to Fund resources is high and program risks are significant. Total outstanding credit to the Fund accounts for some 20 percent of total external public debt and is projected to peak in 2022 at 8.7 percent of GDP (89.6 percent of quota). Debt service to the Fund as a share of total obligations will peak in 2022 at 61 percent. The program remains fully financed with firm commitments for the next 12 months, and prospects are favorable for the remainder of the program.

30. Staff supports the disbursement of SDR17 million (US$24.1 million). PCs, ITs, and SBs through the first half of 2022 are set out in Tables 1, 4 and 5 of the MEFP.

CAPACITY DEVELOPMENT

31. Liberia is an intensive user of TA. The capacity development strategy supports the objectives of the authorities' development agenda and the ECF-supported program, focusing on domestic revenue mobilization; strengthening bank supervision; cash management; improving macroeconomic statistics, currency management; and monetary policy operations.

STAFF APPRAISAL

32. Program performance has been mixed. Further progress has been made with entrenching macroeconomic stability. A favorable fiscal revenue performance and further cleanup of the government payroll are considerable achievements. But it is taking longer than planned to implement the structural reform agenda, notably in the areas of governance and financial sector restructuring.

33. The economy is recovering from the setback brought on by the COVID-19 pandemic. Economic activity should reach pre-pandemic levels this year and expand robustly in 2022 on the back of sharp increases of investment by the government and in the mining sector. Payoffs from the government's reform program should carry growth over the medium term.

34. The planned currency changeover will put an end to disruptive cash shortages but comes with downside risks that need to be carefully managed. Staff welcomes the prospective delivery of additional currency from late November. It will strengthen financial sector confidence, foster de-dollarization, and facilitate the accumulation of international reserves. However, this could have been achieved by reprinting the existing currency rather than exchanging the entire currency stock with a new family of banknotes and coins, which gives rise to immense operational challenges. It is reassuring though that the CBL is developing a time-bound implementation plan that envisages a gradual, highly managed exchange that relies on existing institutional arrangements to the extent possible.

35. Staff supports the government's fiscal policy for the rest of 2021 and 2022, as long as medium-term objectives are kept in sight. Subject to keeping Liberia's international reserve cover above 4 months of imports, it is appropriate to partly use the IMF's SDR allocation to Liberia for strengthening high-quality investment, supporting COVID-19 vaccinations, and retiring expensive public debt. The government's commitment to persevere with containing the public wage bill and strengthening domestic revenue mobilization is reassuring as it is important for the medium-term sustainability of public finances.

36. Financial sector development and stability remain a work in progress. The authorities should capitalize on the currency changeover, accelerate bank restructuring, deal aggressively with high non-performing loans, and further strengthen the supervisory framework by adopting and implementing the new Financial Institutions Act.

37. Progress with strengthening the governance framework is welcome but has yet to translate into improvements on the ground. Public financial management and central bank governance have been decisively upgraded since 2019. It will now be important to advance the broader agenda and strengthen implementation, including by swiftly enacting the package of new anti-corruption legislation, firmly enforcing it, and revamping the anti-corruption agency.

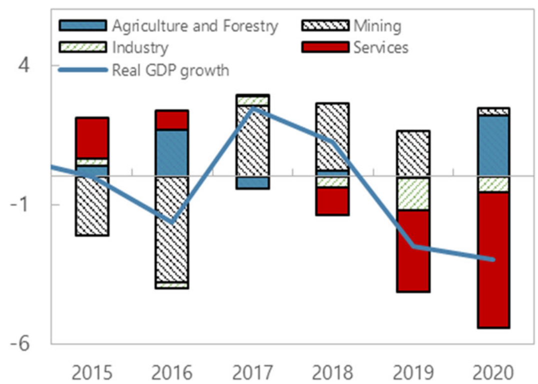
38. The authorities should put more emphasis on private sector development. Shortcomings in Liberia's business environment are reasonably well understood and have been extensively discussed. Staff welcomes the government's commitment to now focus on the next step and systematically address deficiencies by implementing concrete reform measures.

39. Staff supports the completion of the third review of the ECF-supported program and the disbursement of fourth tranche in the amount of SDR 17 million. It also supports the granting of waivers for the non-observance of the performance criteria on net international reserves and on external payment arrears and the modification of SBs, as well as adjustments to the TMU, notably to accommodate partial on-lending of the SDR allocation by the CBL to the government.

Figure 3. Liberia: Recent Economic Developments, 2015–21

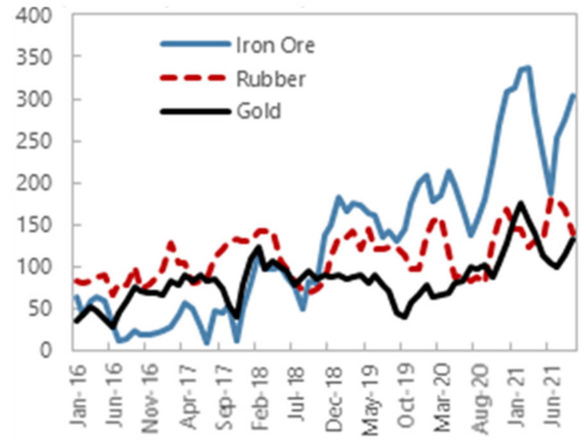
The services sector was hard hit by the COVID-19 pandemic and dragged the economy into recession ….

Liberia: GDP Growth and Contributions by Sector
(Percent)



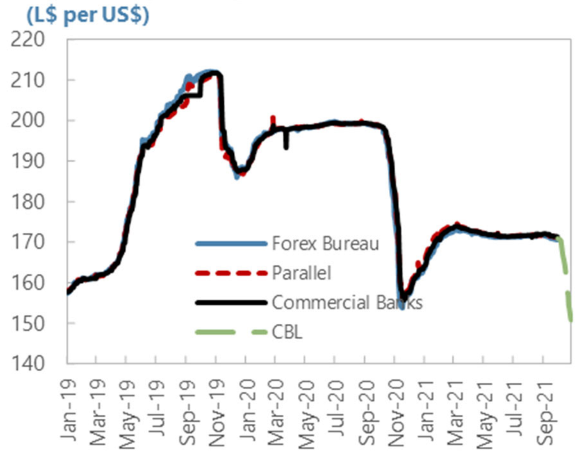
… but commodity exports benefitted from the recovery of international prices in the second half of 2020.

Liberia: Nominal Export, 2016-2021
(2018=100, 3 months m.a.)



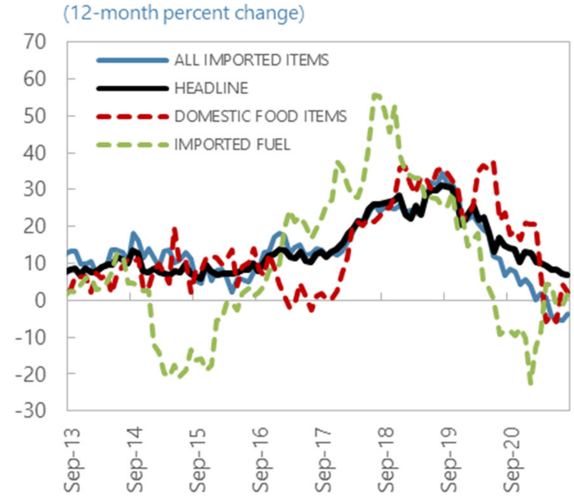
The exchange rate appreciated sharply in late 2020 due to an acute shortage of LD banknotes, …

Liberia: Daily Exchange Rates, 2019-21
(L$ per US$)



… which also accelerated disinflation, together with a decline in import prices.

Liberia: Price Developments, 2013-21[1]
(12-month percent change)

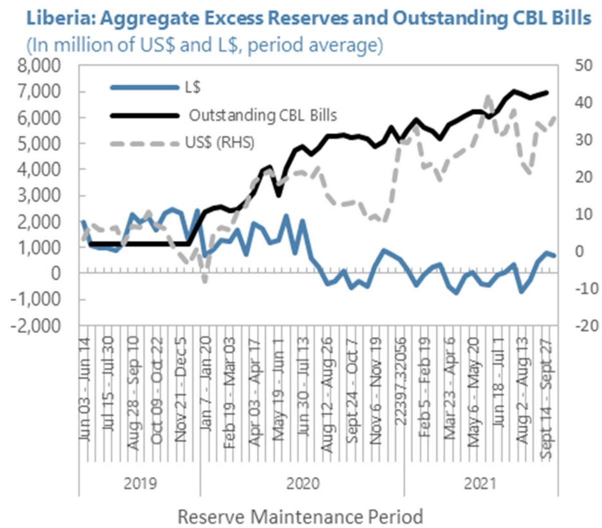


Sources: Central Bank of Liberia; and IMF staff calculations.

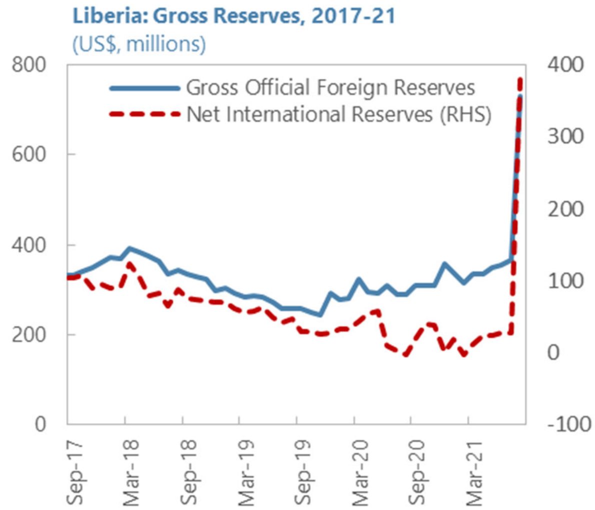
[1] Effective January 2019, Liberian authorities have rebased inflation using the 2016 Household Income and Expenditure Survey which calculates the 2004 base year usigna a regional average consumption basket.

Figure 4. Liberia: Monetary Developments, 2016–21

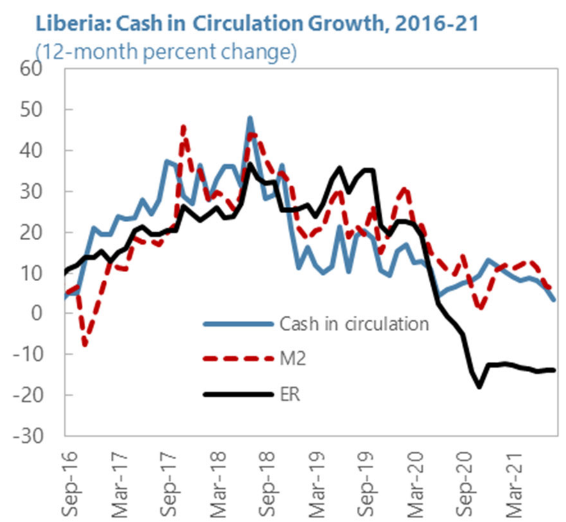
Excess dollar reserves and outstanding CBL bills increased steadily while LD reserves have fallen.



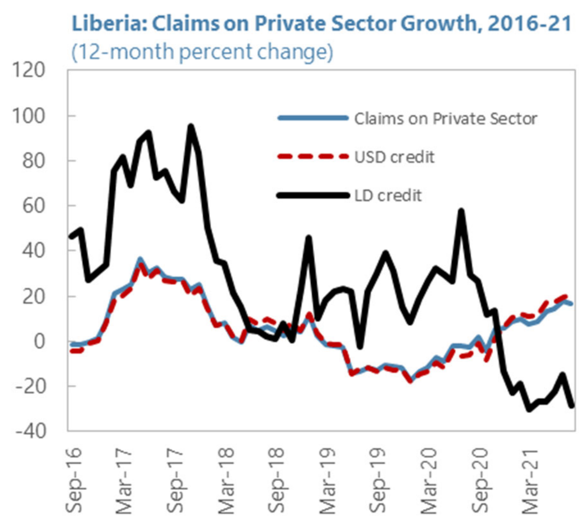
Rising donor support and stronger net remittances improved reserves from late 2019 with the SDR allocation providing a major boost in August 2021.



Growth of monetary aggregates slowed sharply because of LD banknote shortages and a tight monetary policy stance.



Private sector credit started to expand again in 2020 as businesses bridged the pandemic-induced slump in sales.



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

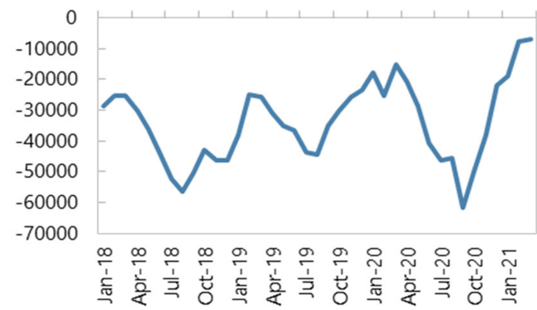
Figure 5. Liberia: External Sector Developments, 2013–21

After a brief contraction in early 2020, imports surpassed their pre-pandemic levels and exports have shown resilience during the pandemic.

Liberia: Imports and Exports, 2018-2020
(US$ 000s, 3-month m.a.)

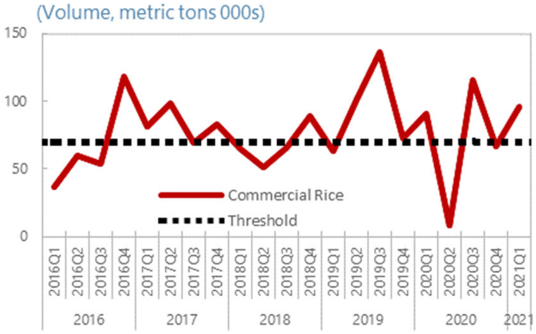
The trade balance maintained its pre-pandemic level, as both exports and imports increased in 2020. However, the trade deficit is expected to widen in 2021.

Liberia: Trade Balance, 2018-2020
(US$ 000s, 3-month m.a.)



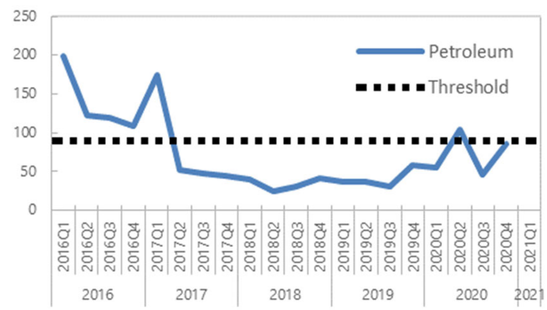
Imports of staple goods, such as rice, dropped significantly and then recovered during the pandemic …

Liberia: Quarterly Rice Imports, 2016-21[1]
(Volume, metric tons 000s)



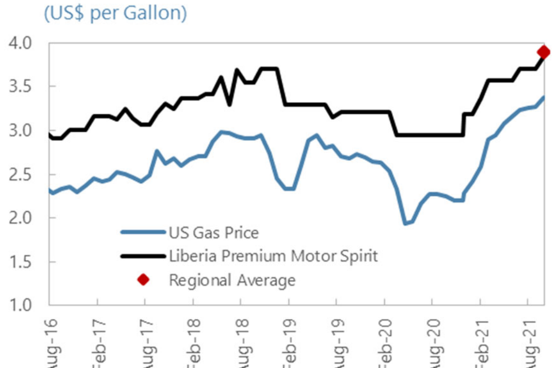
… while fuel imports remained stable.

Liberia: Quarterly Petroleum Imports 2016-21[2]
(Volume, liters millions)



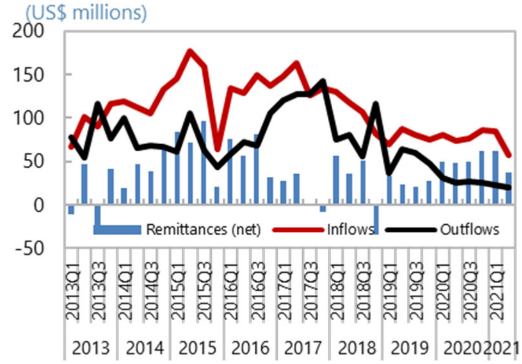
Fuel prices in Liberia are broadly moving with international prices.

Liberia: Imported Fuel Price, 2016-21[3]
(US$ per Gallon)



Net remittances rose during the pandemic.

Liberia: Quarterly Remittances, 2013 - 2021
(US$ millions)



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

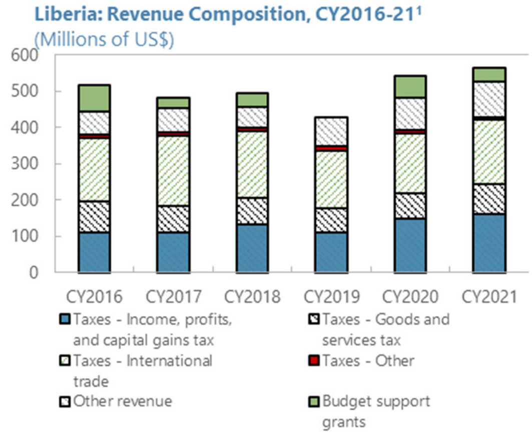
[1] Quarterly average rice imports needed to meet 400g rice per person per day criteria (World Food Program).

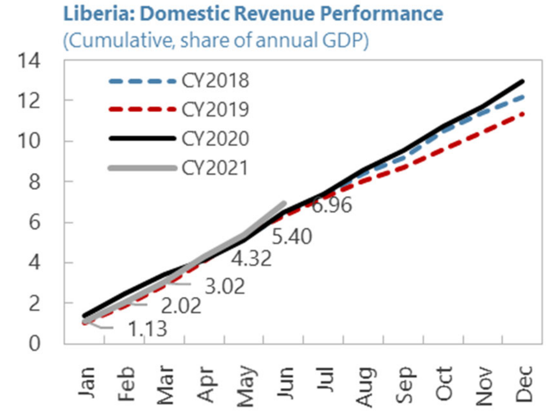
[2] Quarterly average fuel imports considered adequate by Liberia Peroleum Refining Company (LPRC).

[3] Regional average based on prices in ECOWAS commission as of October 23, 2020.

Figure 6. Liberia: Fiscal Performance, CY2016–21

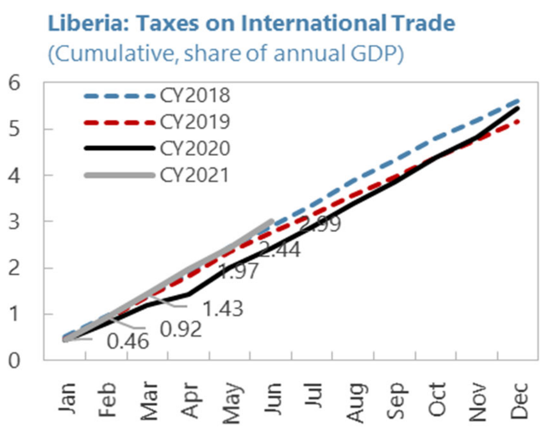
Revenue collection in 2020 showed improvements after a poor showing in 2019. This reflects the introduction of a fuel excise tax, a rebound of trade taxes late in the year, and some one-off effects.

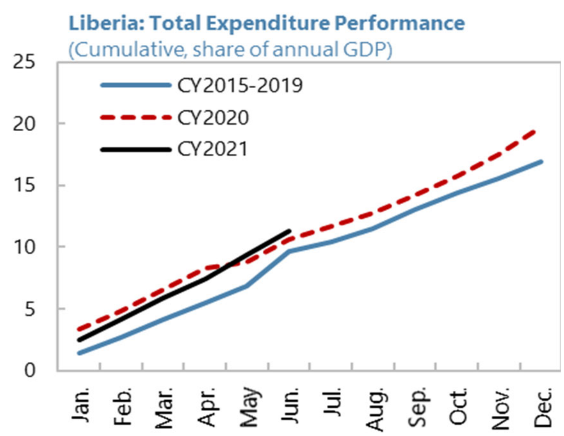




Trade taxes in 2020 fared much better than in 2019 and came close to matching the 2018 performance ….

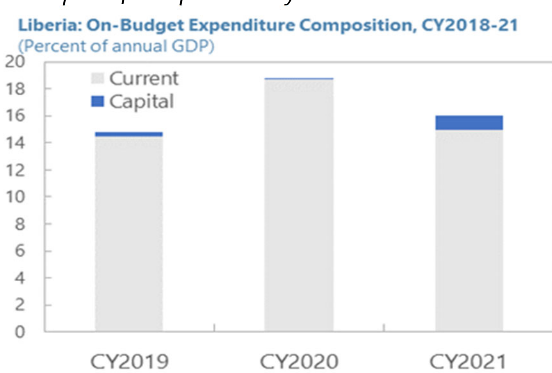
… while expenditure remained under control considering the pandemic-related spending needs.

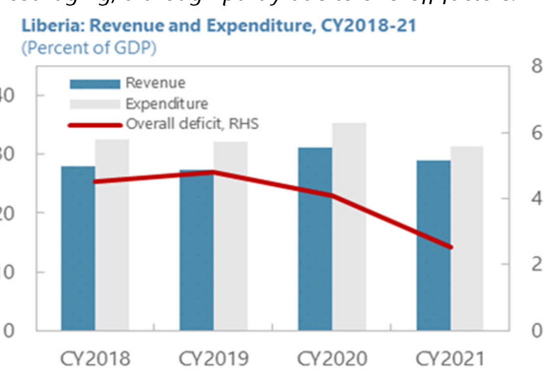




On-budget expenditure remains low and is grossly inadequate for capital outlays …

… while recent progress with deficit reduction is encouraging, although partly due to one-off factors.





Sources: Liberian authorities; and IMF staff calculations.

[1] CY2021 numbers are preliminary.

Table 2. Liberia: Selected Economic and Financial Indicators, 2019–26

	2019	2020	2021		2022		2023	2024	2025	2026
	Est.	Est.	1st & 2nd Review	Proj.	1st & 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change)									
Real sector										
Real GDP	-2.5	-3.0	3.2	3.6	4.1	4.7	4.9	5.7	5.6	5.7
of which, Mining & panning	13.2	2.0	1.9	7.0	4.2	4.7	5.7	6.8	7.5	5.4
of which, Non-mining	-4.7	-3.8	3.5	2.9	4.1	4.7	4.7	5.6	5.2	5.7
Nominal non-mining per capita GDP (U.S. dollars)	554	529	527	584	537	618	625	655	686	723
Nominal GDP (millions of U.S. dollars)	3,080	3,037	3,107	3,426	3,247	3,698	3,847	4,143	4,464	4,810
Inflation										
Consumer prices (annual average)	27.0	17.0	9.8	8.4	7.0	11.5	8.3	5.4	5.0	5.0
Consumer prices (end of period)	20.3	13.1	8.0	9.7	6.0	12.3	6.4	5.0	5.0	5.0
Population (millions)	4.6	4.7	4.8	4.8	4.9	4.9	5.1	5.2	5.3	5.4
	(Percent of GDP)									
Central government operations[1]										
Total revenue and grants	27.4	31.2	29.2	30.7	28.8	28.9	28.0	28.5	28.2	27.7
Total revenue	13.9	15.8	15.3	17.8	16.6	17.2	17.4	17.4	17.7	17.9
Grants	13.5	15.3	13.9	12.9	12.2	11.7	10.5	11.1	10.5	9.8
Total expenditure	32.2	35.4	32.2	33.1	31.2	32.9	30.0	30.2	29.6	29.1
Current expenditure[2]	21.4	25.1	21.2	22.6	19.9	21.2	19.5	18.5	18.0	17.8
Capital expenditure	10.8	10.3	11.1	10.5	11.3	11.7	10.5	11.7	11.7	11.3
Overall fiscal balance, including grants[2]	-4.8	-4.2	-3.0	-2.4	-2.4	-4.0	-2.1	-1.7	-1.5	-1.4
Overall fiscal balance, excluding grants[2]	-18.3	-19.6	-16.9	-15.3	-14.5	-15.8	-12.6	-12.8	-12.0	-11.2
Total public debt	48.9	61.8	62.0	56.1	63.5	59.0	59.4	56.2	53.2	50.1
Public external debt[3]	35.2	40.9	42.8	38.3	45.2	38.1	38.7	37.4	36.8	36.3
Public domestic debt[4]	13.6	20.9	19.2	17.9	18.4	20.9	20.6	18.8	16.4	13.9
	(Percent, unless otherwise indicated)									
M2/GDP	20.9	25.5	22.3	24.6	22.6	23.6	24.2	24.2	24.2	24.2
Credit to private sector (percent of GDP)	15.3	16.4	16.1	16.4	16.2	16.6	17.2	17.3	17.3	17.4
Credit to private sector (annual percent change)	-11.3	5.5	4.0	12.7	5.1	9.4	7.9	8.1	8.2	8.2
	(Percent of GDP, unless otherwise indicated)									
External sector										
Current account balance										
including grants	-19.6	-16.3	-22.2	-17.9	-22.6	-18.9	-19.9	-19.9	-19.3	-18.3
excluding grants	-25.0	-23.7	-36.1	-23.7	-34.8	-24.1	-24.2	-24.6	-23.8	-22.5
Trade balance	-12.8	-12.9	-18.9	-12.6	-18.3	-10.8	-10.2	-9.4	-7.1	-4.3
Exports	17.5	20.0	14.9	23.1	14.9	23.3	23.7	23.2	24.3	26.3
Imports	-30.3	-32.9	-33.8	-35.7	-33.2	-34.1	-33.8	-32.6	-31.4	-30.6
Grants (donor transfers, net)	5.4	7.3	13.9	5.7	12.2	5.2	4.4	4.7	4.5	4.2
Gross official reserves (millions of U.S. dollars)	292	358	403	716	429	719	769	779	811	846
Months of next years imports	2.2	2.3	2.9	4.4	3.0	4.2	4.3	4.2	4.2	3.8
CBL's net int'l reserves (millions of U.S. dollars)	27	0	70	392	75	362	401	444	504	575

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.

[2] Projections for 2022 include bank restructuring costs of 0.3 percent of GDP as expenditure.

[3] 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.

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

Table 3. Liberia: Balance of Payments, 2019–26
(Millions of US. dollars, unless otherwise indicated)

	2019	2020	2021		2022		2023	2024	2025	2026
	Est.	Est.	1st & 2nd Review	Proj.	1st & 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance	-395	-390	-588	-430	-593	-399	-391	-391	-318	-209
Exports, f.o.b.	539	608	462	793	485	862	911	960	1,084	1,263
of which: Iron ore	235	289	154	364	161	411	454	488	595	727
of which: Gold	164	194	227	278	233	292	291	299	307	335
Imports, f.o.b.	-934	-998	-1,050	-1,223	-1,078	-1,261	-1,302	-1,351	-1,402	-1,472
Services (net)	-410	-409	-302	-407	-312	-425	-441	-491	-505	-521
Primary income (net)	-106	-152	-359	-258	-358	-301	-341	-373	-471	-592
of which: Investment income (net)	-81	-128	-335	-233	-327	-275	-314	-345	-441	-560
Secondary income	305	455	560	480	530	428	408	433	433	440
of which: Remittances (net)	119	212	108	263	113	214	219	215	211	217
Current account balance	-605	-496	-689	-615	-734	-698	-764	-822	-861	-881
Current account balance, excluding grants	-771	-719	-1,121	-812	-1,130	-891	-932	-1,018	-1,062	-1,082
Capital and financial account (net)	590	459	714	960	738	656	804	868	924	958
Capital account	250	242	55	244	57	241	237	265	268	271
Financial account	340	217	659	716	682	415	566	602	656	687
Foreign direct investment (net)	297	222	251	251	276	361	423	467	487	509
Portfolio investment (net)	0	0	0	0	0	0	0	0	0	0
Other investment (net)	44	-5	407	465	406	54	143	135	169	178
Official financing: medium and long term (net)	114	101	152	432	141	64	71	95	123	143
Private financing (net)[1]	-70	-106	255	33	265	-10	72	40	46	35
Overall balance	-15	-37	25	345	5	-42	39	45	63	76
Financing	15	37	-72	-345	-52	42	-39	-45	-63	-76
Change in gross official reserves (increase -)[2]	5	-66	-72	-357	-26	-4	-50	-9	-33	-35
Net use of IMF credit and loans	10	71	-31	-9	-25	34	11	-36	-30	-41
Exceptional financing (CCRT and DSSI)[3]	0	31	31	22	0	11	0	0	0	0
Financing gap (- deficit / + surplus)	0	0	-47	0	-47	0	0	0	0	0
Memorandum items:										
Current account balance (percent of GDP)										
Including grants	-19.6	-16.3	-22.2	-17.9	-22.6	-18.9	-19.9	-19.9	-19.3	-18.3
Excluding grants	-25.0	-23.7	-36.1	-23.7	-34.8	-24.1	-24.2	-24.6	-23.8	-22.5
Trade balance (percent of GDP)	-12.8	-12.9	-18.9	-12.6	-18.3	-10.8	-10.2	-9.4	-7.1	-4.3
Donor transfers (net, percent of GDP)	5.4	7.3	13.9	5.7	12.2	5.2	4.4	4.7	4.5	4.2
Foreign direct investment (net, percent of GDP)	9.6	7.3	8.1	7.3	8.5	9.8	11.0	11.3	10.9	10.6
Public sector external debt (medium and long term, percent of GDP)	34.2	40.6	43.1	40.6	46.2	39.5	39.5	38.8	38.2	37.6
Gross official reserves	292	358	403	716	429	719	769	779	811	846
Gross official reserves (months of next year's imports)	2.2	2.3	2.9	4.4	3.0	4.2	4.3	4.2	4.2	3.8

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

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

[2] Includes SDR holdings.

[3] CCRT prospective financing is contingent on availability of resources and IMF Board approval of additional funding.

Table 4a. Liberia: Fiscal Operations of the Budgetary Central Government (Including Off-Budget Transactions), 2019–26[1]

(Millions of U.S. dollars)

	CY2019	CY2020	CY2021		CY2022		CY2023	CY2024	CY2025	CY2026
	Est.	Est	1st & 2nd Review	Proj.	1st & 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	844	947	908	1,051	936	1,069	1,076	1,182	1,257	1,330
of which: Revenue, excl. grants	427	481	476	610	540	635	670	721	788	859
Taxes	349	394	378	465	425	492	529	574	630	689
Income, profits, and capital gains tax	111	150	129	183	140	197	206	222	244	266
Goods and services tax	66	69	77	77	92	74	90	102	113	125
International trade tax	159	165	160	195	180	211	223	239	261	285
Other taxes[2]	14	10	13	11	13	10	10	11	12	13
Other revenue	78	88	98	145	116	143	141	146	159	170
Grants	416	466	432	441	396	434	405	461	468	471
Expense	661	763	657	774	646	785	750	766	802	856
Compensation of employees	272	329	289	305	286	297	297	307	308	308
Use of goods and services	297	341	291	362	280	375	327	322	330	342
Interest	33	39	26	30	25	31	29	29	26	32
Subsidies and grants[3]	56	49	50	72	54	71	79	78	88	95
Social benefits	3	5	1	6	1	11	18	30	50	79
Net operating balance	183	184	251	277	291	284	326	416	454	474
Gross investment in nonfinancial assets	331	313	345	359	367	433	405	485	520	542
Overall balance = Net lending/borrowing	-148	-128	-94	-82	-77	-149	-79	-69	-66	-68
excl. Grants	-565	-594	-526	-523	-472	-583	-484	-531	-534	-539
Primary balance	-116	-89	-68	-52	-52	-118	-51	-41	-40	-35
excl. Grants	-532	-555	-500	-493	-447	-552	-456	-502	-509	-507
Financing	-148	-128	-94	-82	-77	-149	-79	-69	-66	-68
Transactions in financial assets	14	37	-17	-35	0	4	0	0	0	0
Deposits	14	37	-17	-35	0	4	0	0	0	0
Loans (policy lending)	0	0	0	0	0	0	0	0	0	0
Transaction in liabilities	162	166	77	47	77	152	79	69	66	68
Loans	111	192	116	119	110	212	103	94	90	87
External (net)	110	191	118	123	102	123	86	76	77	87
Disbursements	118	206	132	144	131	153	131	130	131	120
Amortization (-)	-8	-15	-13	-21	-29	-30	-45	-54	-54	-33
Domestic (net)	0	1	-3	-4	8	89	18	18	13	0
o/w CBL	8	4	1	0	12	93	22	22	17	4
Disbursements	8	4	1	0	12	93	22	22	17	4
Amortization (-)	0	0	0	0	0	0	0	0	0	0
Debt securities[4]	3	-4	-26	-46	-18	-47	-9	-9	-9	-9
Bank[3]	3	-4	-26	-46	-18	-47	-9	-9	-9	-9
Nonbank	0	0	0	0	0	0	0	0	0	0
Accounts payable	48	-22	-14	-26	-15	-13	-15	-15	-15	-10
Memorandum items:										
Total public debts	1,505	1,877	1,928	1,923	2,062	2,182	2,284	2,329	2,373	2,411
External	1,085	1,241	1,330	1,311	1,466	1,409	1,491	1,550	1,643	1,745
Domestic[5]	420	636	597	612	596	773	793	779	731	666
Nominal GDP	3,080	3,037	3,107	3,426	3,247	3,698	3,847	4,143	4,464	4,810

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

[1] Table is shown on a commitment basis and refers to the budgetary central government operations and off-budget projects. Prior to CY 2022, the figures are average of two fiscal year which runs from July 1 the previous year to June 30.

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

[3] CY2021 projections includes bank restructuring costs. US$11.9 million are recorded as expenditure and US$19.1 million are recorded as financing item.

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

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

Table 4b. Liberia: Fiscal Operations of the Budgetary Central Government (Including Off-Budget Transactions), 2019–26[1]

(Percent of GDP, unless otherwise indicated)

	CY2019	CY2020	CY2021		CY2022		CY2023	CY2024	CY2025	CY2026
	Est.	Est.	1st & 2nd Review	Proj.	1st & 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	27.4	31.2	29.2	30.7	28.8	28.9	28.0	28.5	28.2	27.7
of which: Revenue, excl. grants	13.9	15.8	15.3	17.8	16.6	17.2	17.4	17.4	17.7	17.9
Taxes	11.3	13.0	12.2	13.6	13.1	13.3	13.7	13.9	14.1	14.3
Income, profits, and capital gains tax	3.6	4.9	4.2	5.3	4.3	5.3	5.4	5.4	5.5	5.5
Goods and services tax	2.1	2.3	2.5	2.2	2.8	2.0	2.3	2.5	2.5	2.6
International trade tax	5.2	5.4	5.2	5.7	5.5	5.7	5.8	5.8	5.8	5.9
Other taxes[2]	0.4	0.3	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Other revenue	2.5	2.9	3.1	4.2	3.6	3.9	3.7	3.5	3.6	3.5
Grants	13.5	15.3	13.9	12.9	12.2	11.7	10.5	11.1	10.5	9.8
Expense	21.4	25.1	21.2	22.6	19.9	21.2	19.5	18.5	18.0	17.8
Compensation of employees	8.8	10.8	9.3	8.9	8.8	8.0	7.7	7.4	6.9	6.4
Use of goods and services	9.6	11.2	9.4	10.6	8.6	10.1	8.5	7.8	7.4	7.1
Interest	1.1	1.3	0.8	0.9	0.8	0.8	0.7	0.7	0.6	0.7
Subsidies and grants[3]	1.8	1.6	1.6	2.1	1.7	1.9	2.0	1.9	2.0	2.0
Social benefits	0.1	0.2	0.0	0.2	0.0	0.3	0.5	0.7	1.1	1.6
Net operating balance	5.9	6.1	8.1	8.1	9.0	7.7	8.5	10.0	10.2	9.9
Gross investment in nonfinancial assets	10.8	10.3	11.1	10.5	11.3	11.7	10.5	11.7	11.7	11.3
Overall balance = Net lending/borrowing	-4.8	-4.2	-3.0	-2.4	-2.4	-4.0	-2.1	-1.7	-1.5	-1.4
excl. Grants	-18.3	-19.6	-16.9	-15.3	-14.5	-15.8	-12.6	-12.8	-12.0	-11.2
Primary balance	-3.8	-2.9	-2.2	-1.5	-1.6	-3.2	-1.3	-1.0	-0.9	-0.7
excl. Grants	-17.3	-18.3	-16.1	-14.4	-13.8	-14.9	-11.8	-12.1	-11.4	-10.5
Financing	-4.8	-4.2	-3.0	-2.4	-2.4	-4.0	-2.1	-1.7	-1.5	-1.4
Transactions in financial assets	0.4	1.2	-0.5	-1.0	0.0	0.1	0.0	0.0	0.0	0.0
Deposits	0.4	1.2	-0.5	-1.0	0.0	0.1	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	0.0	0.0
Transaction in liabilities	5.3	5.5	2.5	1.4	2.4	4.1	2.1	1.7	1.5	1.4
Loans	3.6	6.3	3.7	3.5	3.4	5.7	2.7	2.3	2.0	1.8
External (net)	3.6	6.3	3.8	3.6	3.1	3.3	2.2	1.8	1.7	1.8
Disbursements	3.8	6.8	4.2	4.2	4.0	4.1	3.4	3.1	2.9	2.5
Amortization (-)	-0.3	-0.5	-0.4	-0.6	-0.9	-0.8	-1.2	-1.3	-1.2	-0.7
Domestic (net)	0.0	0.0	-0.1	-0.1	0.2	2.4	0.5	0.4	0.3	0.0
o/w CBL	0.3	0.1	0.0	0.0	0.4	2.5	0.6	0.5	0.4	0.1
Disbursements	0.3	0.1	0.0	0.0	0.4	2.5	0.6	0.5	0.4	0.1
Amortization (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities[4]	0.1	-0.1	-0.8	-1.3	-0.6	-1.3	-0.2	-0.2	-0.2	-0.2
Bank[3]	0.1	-0.1	-0.8	-1.3	-0.6	-1.3	-0.2	-0.2	-0.2	-0.2
Nonbank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	1.6	-0.7	-0.4	-0.8	-0.5	-0.4	-0.4	-0.4	-0.3	-0.2
Memorandum items:										
Total public debts	48.9	61.8	62.0	56.1	63.5	59.0	59.4	56.2	53.2	50.1
External	35.2	40.9	42.8	38.3	45.2	38.1	38.7	37.4	36.8	36.3
Domestic[5]	13.6	20.9	19.2	17.9	18.4	20.9	20.6	18.8	16.4	13.9
Nominal GDP	3,080	3,037	3,107	3,426	3,247	3,698	3,847	4,143	4,464	4,810

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

[1] Table is shown on a commitment basis and refers to the budgetary central government operations and off-budget projects. Prior to CY 2022, the figures are average of two fiscal year which runs from July 1 the previous year to June 30.

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

[3] CY2021 projections includes bank restructuring costs. 0.3 percent of GDP are recorded as expenditure and 0.6 percent of GDP are recorded as financing item.

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

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

Table 5a. Liberia: Fiscal Operations of the Budgetary Central Government, 2019–26[1]

(Millions of U.S. dollars)

	CY2019	CY2020	CY2021		CY2022		CY2023	CY2024	CY2025	CY2026
	Est.	Est.	1st & 2nd Review	Proj.	1st & 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	427	543	517	645	560	667	680	740	810	879
of which: Revenue, excl. grants	427	481	476	610	540	635	670	721	788	859
Taxes	349	394	378	465	425	492	529	574	630	689
Income, profits, and capital gains tax	111	150	129	183	140	197	206	222	244	266
Goods and services tax	66	69	77	77	92	74	90	102	113	125
International trade tax	159	165	160	195	180	211	223	239	261	285
Other taxes[2]	14	10	13	11	13	10	10	11	12	13
Other revenue	78	88	98	145	116	143	141	146	159	170
Grants	0	62	41	34	20	33	10	19	22	20
Expense	447	572	481	583	485	597	595	598	632	685
Compensation of employees	272	329	289	305	286	297	297	307	308	308
Use of goods and services	83	150	115	171	120	187	173	153	160	171
Interest	33	39	26	30	25	31	29	29	26	32
Subsidies and grants[3]	56	49	50	72	54	71	79	78	88	95
Social benefits	3	5	1	6	1	11	18	30	50	79
Net operating balance	-19	-29	36	62	75	70	85	142	178	195
Gross investment in nonfinancial assets	10	1	19	32	31	98	43	91	123	142
Overall balance = Net lending/borrowing	-30	-30	17	29	44	-28	42	51	55	53
excl. Grants	-30	-92	-24	-5	24	-60	32	32	33	33
Primary balance	3	9	43	59	69	3	70	80	81	85
excl. Grants	3	-53	2	25	49	-29	60	60	59	65
Financing	-30	-30	17	29	44	-28	42	51	55	53
Transactions in financial assets	14	37	-17	-35	0	4	0	0	0	0
Deposits	14	37	-17	-35	0	4	0	0	0	0
Loans (policy lending)	0	0	0	0	0	0	0	0	0	0
Transaction in liabilities	44	68	-34	-64	-44	31	-42	-51	-55	-53
Loans	-8	94	5	8	-11	92	-17	-27	-30	-34
External (net)	-8	93	8	12	-19	2	-35	-44	-44	-33
Disbursements	0	108	21	33	10	33	10	10	10	0
Amortization (-)	-8	-15	-13	-21	-29	-30	-45	-54	-54	-33
Domestic (net)	0	1	-3	-4	8	89	18	18	13	0
o/w CBL	8	4	1	0	12	93	22	22	17	4
Disbursements	8	4	1	0	12	93	22	22	17	4
Amortization (-)	0	0	0	0	0	0	0	0	0	0
Debt securities[4]	3	-4	-26	-46	-18	-47	-9	-9	-9	-9
Bank[3]	3	-4	-26	-46	-18	-47	-9	-9	-9	-9
Nonbank	0	0	0	0	0	0	0	0	0	0
Accounts payable	48	-22	-14	-26	-15	-13	-15	-15	-15	-10
Memorandum items:										
Total public debts	1,505	1,877	1,928	1,923	2,062	2,182	2,284	2,329	2,373	2,411
External	1,085	1,241	1,330	1,311	1,466	1,409	1,491	1,550	1,643	1,745
Domestic[5]	420	636	597	612	596	773	793	779	731	666
Nominal GDP	3,080	3,037	3,107	3,426	3,247	3,698	3,847	4,143	4,464	4,810

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

1 Table is shown on a commitment basis and refers to the budgetary central government operations and off-budget projects. Prior to CY 2022, the figures are average of two fiscal year which runs from July 1 the previous year to June 30.

2 Including property tax and social contribution by foreign concessions.

3 CY2021 projections includes bank restructuring costs. US$11.9 million are recorded as expenditure and US$19.1 million are recorded as financing item.

4 Including net issuance of T-bill and T-bond.

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

Table 5b. Liberia: Fiscal Operations of the Budgetary Central Government, 2019–26[1]

(Percent of GDP, unless otherwise indicated)

	CY2019	CY2020	CY2021		CY2022		CY2023	CY2024	CY2025	CY2026
	Est.	Est.	1st & 2nd Review	Proj.	1st & 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	13.9	17.9	16.6	18.8	17.3	18.0	17.7	17.9	18.1	18.3
of which: Revenue, excl. grants	13.9	15.8	15.3	17.8	16.6	17.2	17.4	17.4	17.7	17.9
Taxes	11.3	13.0	12.2	13.6	13.1	13.3	13.7	13.9	14.1	14.3
Income, profits, and capital gains tax	3.6	4.9	4.2	5.3	4.3	5.3	5.4	5.4	5.5	5.5
Goods and services tax	2.1	2.3	2.5	2.2	2.8	2.0	2.3	2.5	2.5	2.6
International trade tax	5.2	5.4	5.2	5.7	5.5	5.7	5.8	5.8	5.8	5.9
Other taxes[2]	0.4	0.3	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Other revenue	2.5	2.9	3.1	4.2	3.6	3.9	3.7	3.5	3.6	3.5
Grants	0.0	2.0	1.3	1.0	0.6	0.9	0.3	0.5	0.5	0.4
Expense	14.5	18.8	15.5	17.0	14.9	16.1	15.5	14.4	14.2	14.2
Compensation of employees	8.8	10.8	9.3	8.9	8.8	8.0	7.7	7.4	6.9	6.4
Use of goods and services	2.7	4.9	3.7	5.0	3.7	5.1	4.5	3.7	3.6	3.6
Interest	1.1	1.3	0.8	0.9	0.8	0.8	0.7	0.7	0.6	0.7
Subsidies and grants[3]	1.8	1.6	1.6	2.1	1.7	1.9	2.0	1.9	2.0	2.0
Social benefits	0.1	0.2	0.0	0.2	0.0	0.3	0.5	0.7	1.1	1.6
Net operating balance	-0.6	-1.0	1.2	1.8	2.3	1.9	2.2	3.4	4.0	4.0
Gross investment in nonfinancial assets	0.3	0.0	0.6	0.9	1.0	2.7	1.1	2.2	2.8	2.9
Overall balance = Net lending/borrowing	-1.0	-1.0	0.5	0.9	1.4	-0.8	1.1	1.2	1.2	1.1
excl. Grants	-1.0	-3.0	-0.8	-0.1	0.7	-1.6	0.8	0.8	0.7	0.7
Primary balance	0.1	0.3	1.4	1.7	2.1	0.1	1.8	1.9	1.8	1.8
excl. Grants	0.1	-1.7	0.1	0.7	1.5	-0.8	1.6	1.5	1.3	1.4
Financing	-1.0	-1.0	0.5	0.9	1.4	-0.8	1.1	1.2	1.2	1.1
Transactions in financial assets	0.4	1.2	-0.5	-1.0	0.0	0.1	0.0	0.0	0.0	0.0
Deposits	0.4	1.2	-0.5	-1.0	0.0	0.1	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	0.0	0.0
Transaction in liabilities	1.4	2.2	-1.1	-1.9	-1.4	0.8	-1.1	-1.2	-1.2	-1.1
Loans	-0.3	3.1	0.2	0.2	-0.3	2.5	-0.5	-0.6	-0.7	-0.7
External (net)	-0.3	3.1	0.3	0.3	-0.6	0.1	-0.9	-1.1	-1.0	-0.7
Disbursements	0.0	3.6	0.7	0.9	0.3	0.9	0.3	0.2	0.2	0.0
Amortization (-)	-0.3	-0.5	-0.4	-0.6	-0.9	-0.8	-1.2	-1.3	-1.2	-0.7
Domestic (net)	0.0	0.0	-0.1	-0.1	0.2	2.4	0.5	0.4	0.3	0.0
o/w CBL	0.3	0.1	0.0	0.0	0.4	2.5	0.6	0.5	0.4	0.1
Disbursements	0.3	0.1	0.0	0.0	0.4	2.5	0.6	0.5	0.4	0.1
Amortization (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities[4]	0.1	-0.1	-0.8	-1.3	-0.6	-1.3	-0.2	-0.2	-0.2	-0.2
Bank[3]	0.1	-0.1	-0.8	-1.3	-0.6	-1.3	-0.2	-0.2	-0.2	-0.2
Nonbank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	1.6	-0.7	-0.4	-0.8	-0.5	-0.4	-0.4	-0.4	-0.3	-0.2
Memorandum items:										
Total public debts	48.9	61.8	62.0	56.1	63.5	59.0	59.4	56.2	53.2	50.1
External	35.2	40.9	42.8	38.3	45.2	38.1	38.7	37.4	36.8	36.3
Domestic[5]	13.6	20.9	19.2	17.9	18.4	20.9	20.6	18.8	16.4	13.9
Nominal GDP	3,080	3,037	3,107	3,426	3,247	3,698	3,847	4,143	4,464	4,810

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

1 Table is shown on a commitment basis and refers to the budgetary central government operations and off-budget projects. Prior to CY 2022, the figures are average of two fiscal year which runs from July 1 the previous year to June 30.

2 Including property tax and social contribution by foreign concessions.

3 CY2021 projections includes bank restructuring costs. 0.3 percent of GDP are recorded as expenditure and 0.6 percent of GDP are recorded as financing item.

4 Including net issuance of T-bill and T-bond.

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

Table 6. Liberia: Monetary Survey, 2019–26[1]
(Millions of U.S. dollars, unless otherwise indicated)

	2019	2020	2021		2022		2023	2024	2025	2026
	Est.	Est.	1st & 2nd Review	Proj.	1st & 2nd Review	Proj.	Proj.	Proj.	Proj.	Proj.
(Central Bank Survey)										
Net foreign assets	-38	-41	-9	-10	-4	-48	-10	33	95	166
Foreign Assets	369	443	482	815	508	823	873	883	915	950
o/w Gross reserves	349	438	474	811	500	819	869	879	911	946
Foreign Liabilities	407	483	483	821	504	867	879	845	817	780
o/w ST Foreign Liabilities	225	294	298	280	319	326	339	304	276	239
Net domestic assets	254	302	222	274	230	318	297	276	239	193
Net domestic credit	481	660	504	502	520	560	559	556	553	548
Net claims on government	424	609	501	459	501	527	527	527	527	527
Claims on other public sector	0	0	0	0	0	0	0	0	0	0
Claims on private sector	7	7	8	7	8	7	7	7	7	7
Claims on commercial banks (net)	50	43	-4	35	12	26	25	22	19	14
Capital account	-121	-189	-159	-125	-159	-125	-125	-125	-125	-125
Other items (net)	-107	-168	-123	-104	-132	-117	-136	-155	-190	-231
consistency check	0	0	0	0	0	0	0	0	0	0
Monetary base (M0)	216	261	213	263	226	270	287	309	333	359
Monetary base (L$ component, billions of L$)	28	29	32	32	36	37	42	47	51	56
(Depository Corporation Survey)										
Net foreign assets	67	74	102	117	106	79	117	161	222	294
Net domestic assets	572	701	591	725	626	793	813	840	857	869
Net claims on government	465	641	511	506	511	539	539	539	539	539
Claims on public enterprises	0	0	0	0	0	0	0	0	0	0
Claims on private sector	471	497	501	560	526	613	661	715	774	837
Claims on nonbank financial institutions	27	29	0	35	0	26	25	22	19	14
Other Items (Net)	-110	-97	-98	-74	-104	-81	-109	-132	-172	-219
Broad money (M2)	644	775	693	842	733	873	930	1001	1079	1162
L$ component	206	253	223	287	235	306	339	380	426	470
L$ Currency in circulation	109	138	125	152	132	160	175	192	210	228
L$ denominated deposits	97	116	98	135	104	146	164	188	216	242
US$ component (deposits only)	438	522	471	555	497	566	591	621	653	692
Memorandum items :										
Gross official reserves	292	358	403	716	429	719	769	779	811	846
Net International Reserves[1]	27	0	70	392	75	362	401	444	504	575
Broad money (annual change) in USD	0.5	20.4	4.7	8.6	5.7	3.6	6.5	7.7	7.8	7.7
Broad money (annual change) in LD	19.9	5.2	12.2	18.3	12.1	19.4	10.4	10.2	10.4	10.5
L$ contribution to broad money growth (in LD)	6.2	2.4	3.9	7.7	3.9	7.8	5.1	5.4	5.6	5.2
US$ contribution to broad money growth (in LD)	13.7	2.8	8.3	10.7	8.2	11.6	5.2	4.8	4.8	5.3
Monetary base (LD component, annual change)	9.1	3.9	12.2	9.5	12.1	15.7	12.1	11.9	10.4	9.3
Net credit to government (annual change)	28.5	38.0	0.0	-21.0	0.0	6.4	0.0	0.0	0.0	0.0
Credit to private sector (annual change)	-11.3	5.5	4.0	12.7	5.1	9.4	7.9	8.1	8.2	8.2
Velocity (GDP-to-M2)	4.8	3.9	4.5	4.1	4.4	4.2	4.1	4.1	4.1	4.1
Money multiplier (M2/M0)	3.0	3.0	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2

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

[1] See Text Table 1 for adjustments to Net International Reserves target from program approval.

Table 7. Liberia: Financial Soundness Indicators, 2016–21
(Percent)

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Mar-21	Jun-21
Core FSIs for Deposit Takers							
Regulatory Capital to Risk-Weighted Assets[1]	29.2	35.0	23.8	22.2	30.2	28.8	27.5
Regulatory Tier 1 Capital to Risk-Weighted Assets[1]	24.6	31.6	22.4	20.6	26.7	25.4	24.0
Non-performing Loans Net of Provisions to Capital	3.0	12.8	15.3	17.9	6.8	14.1	16.4
Non-performing Loans to Total Gross Loans	14.6	14.8	14.0	17.5	21.6	27.4	23.0
Sectoral Distribution of Loans to Total Loans							
Residents	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Deposit-takers	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	5.5	0.0	0.0	4.6	3.7	2.2	0.2
General government	4.3	0.0	1.1	2.0	2.0	2.3	2.4
Nonfinancial corporations	50.7	63.6	58.1	77.6	78.4	80.9	83.7
Other domestic sectors	39.5	36.4	40.7	15.8	15.9	14.6	13.7
Nonresidents	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Return on Assets	0.5	1.8	1.4	2.6	1.1	1.5	2.1
Return on Equity	2.5	10.2	7.7	14.7	6.6	8.6	12.0
Interest Margin to Gross Income	53.3	52.1	48.9	52.8	52.9	53.8	52.3
Non-interest Expenses to Gross Income	81.2	78.2	73.0	74.2	77.2	62.7	59.5
Liquid Assets to Total Assets (Liquid Asset Ratio)	70.7	29.3	32.8	27.3	28.7	37.0	34.5
Liquid Assets to Short Term Liabilities	97.8	43.9	47.6	42.3	41.7	54.0	49.8
Net Open Position in Foreign Exchange to Capital	13.7	1.7	27.2	65.6	42.3	49.9	52.4

Sources: Liberian authorities; and IMF staff estimates.

[1]The reported Financial Soundness Indicators have been validated by IMF staff using source data from the CBL as given. Staff notes that CBL should revise its risk-weights and risk-weighted asset calculation to reflect the credit risk of the underlying instruments appropriately. There may be a few issues in reporting number. Additionally, discrepancies in measuring revaluation of paid-in capital may lead to inaccurate measures for capital for some banks.

Table 8. Liberia: External Financing Requirement and Source, 2017–26

(Millions of U.S. dollars)

	Est.				Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total Financing Requirement	-1,059	-882	-767	-785	-1,169	-894	-983	-1,028	-1,095	-1,117
Current account (excluding donor grants)	-1,126	-946	-771	-719	-812	-891	-932	-1,018	-1,062	-1,082
Gross Reserves Accumulation (- increase)	67	64	5	-66	-357	-4	-50	-9	-33	-35
Total Sources	1,059	882	767	785	1,169	894	983	1,028	1,095	1,117
Expected Disbursements (official)	555	254	280	324	628	257	239	291	323	344
Grants	386	250	167	223	197	193	168	196	200	201
Official financing: medium and long term (net)	169	4	114	101	432	64	71	95	123	143
Capital transfer	268	251	250	242	244	241	237	265	268	271
Foreign direct investment	260	304	297	222	251	361	423	467	487	509
Private financing (net)	-25	77	-70	-106	33	-10	72	40	46	35
IMF (net, existing credit)	0	-3	10	71	-9	34	11	-36	-30	-41
Financing gap	0	0	0	0	0	0	0	0	0	0
Provisional IMF	0	0	0	0	0	0	0	0	0	0
Gross official reserves	361	297	292	358	716	719	769	779	811	846
Months of imports	2.5	2.2	2.2	2.3	4.4	4.2	4.3	4.2	4.2	3.8

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

Table 9. Liberia: Schedule of Disbursements Under ECF Arrangement, 2019–23

(Millions of SDR)

Availability Date [1]	Amount	% of Quota	Conditions Necessary for Disbursement [2]
December 11, 2019	17.0	6.58	Executive Board Approval of four-year ECF arrangement.
December 21, 2020	34.0	13.16	Executive Board Approval of the first and second reviews of the ECF arrangement.
June 1, 2021	17.0	6.58	Observance of performance criteria for December 31, 2020, and completion of third review.
December 1, 2021	17.0	6.58	Observance of performance criteria for June 30, 2021, and completion of fourth review.
June 1, 2022	17.0	6.58	Observance of performance criteria for December 31, 2021, and completion of fifth review.
December 1, 2022	17.0	6.58	Observance of performance criteria for June 30, 2022, and completion of six review.
June 1, 2023	18.0	6.97	Observance of performance criteria for December 31, 2022, and completion of seventh review.
November 15, 2023	18.0	6.97	Observance of performance criteria for June 30, 2023, and completion of eight review.
Total for the ECF arrangement	**155.0**	**60.0**	

Source: IMF staff.

[1] Refers to Executive Board approval dates for completed reviews.

[2] Disbursements are also subject to compliance with continuous performance criteria.

Table 10. Liberia: Indicators of Capacity to Repay the IMF, 2021–31

(As of March 2021; SDR millions, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Projections										
Fund obligations based on existing credit											
(in millions of SDRs)											
Repayment of principal	23.0	26.3	27.3	24.4	20.2	25.9	20.4	17.4	17.4	10.4	0.0
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	23.0	26.3	27.3	24.4	20.2	25.9	27.2	32.8	38.2	31.2	20.8
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	23.0	26.3	27.3	24.4	20.2	25.9	27.2	32.8	38.2	31.2	20.8
In millions of US$	31.9	36.6	38.0	33.9	28.1	36.1	37.8	45.7	53.2	43.4	28.9
In percent of exports of goods and services	3.1	3.2	3.2	2.6	2.0	2.3	2.1	2.2	2.4	1.7	1.1
In percent of debt service 1/	56.8	61.0	55.1	46.7	42.5	47.5	50.5	50.7	50.5	43.2	30.7
In percent of GDP	0.9	1.0	1.0	0.8	0.6	0.8	0.7	0.8	0.9	0.7	0.4
In percent of Gross International Reserves	4.5	5.2	5.1	4.5	3.6	4.4	4.4	5.0	5.5	4.3	2.7
In percent of quota	8.9	10.2	10.6	9.4	7.8	10.0	10.5	12.7	14.8	12.1	8.0
Outstanding Fund credit											
In millions of SDRs	198.9	231.5	240.2	215.8	195.6	169.7	142.5	109.7	71.4	40.2	19.4
In millions of US$	276.6	322.0	334.0	300.2	272.0	236.0	198.2	152.5	99.3	55.9	27.0
In percent of exports of goods and services	26.4	28.3	27.7	23.5	19.2	14.8	11.0	7.5	4.4	2.3	1.0
In percent of external public debt service 1/	492.2	537.1	484.3	413.3	410.7	310.7	264.7	169.4	94.4	55.7	28.6
In percent of GDP	8.1	8.7	8.7	7.2	6.1	4.9	3.8	2.7	1.6	0.8	0.4
In percent of Gross International Reserves	38.6	46.0	44.6	39.6	34.4	28.6	22.8	16.6	10.3	5.5	2.5
In percent of quota	77.0	89.6	92.9	83.5	75.7	65.7	55.1	42.4	27.6	15.6	7.5
Net use of Fund credit (in millions of SDRs)	-6.0	24.7	8.7	-24.4	-20.2	-25.9	-27.2	-32.8	-38.2	-31.2	-20.8
Disbursements	17.0	51.0	36.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	23.0	26.3	27.3	24.4	20.2	25.9	27.2	32.8	38.2	31.2	20.8
Memorandum items:											
Exports of goods and services (in millions of US$)	1,047	1,137	1,205	1,280	1,417	1,599	1,809	2,035	2,246	2,483	2,722
Debt service (in millions of US$)	56.2	59.9	69.0	72.6	66.2	76.0	74.9	90.0	105.2	100.4	94.3
Nominal GDP (in millions of US$)	3,426	3,698	3,847	4,143	4,464	4,810	5,252	5,692	6,127	6,596	7,099
Gross International Reserves (in millions of US$)	716	699	749	759	791	826	869	916	963	1,019	1,072
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.

Appendix I. Letter of Intent

Monrovia, November 9, 2021

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

Dear Madam Managing Director,

On behalf of the government of Liberia, we would like to update you on the progress we have achieved under our economic program anchored in Liberia's national development plan, the Pro-Poor Agenda for Prosperity and Development, and supported by the IMF's Extended Credit Facility (ECF). Since the IMF Executive Board completed the combined first and second program review in December 2020, we have maintained macroeconomic stability and the economic outlook is favorable, though downside risks, notably from a possible flareup of the COVID-19 pandemic, remain. The IMF's debt relief under the Catastrophe Containment and Relief Trust and budget support under the Rapid Credit Facility and in the context of the last ECF review have helped mitigate the economic impact of the pandemic. The recent SDR allocation provides a timely boost to Liberia's international reserve position and opens fiscal space to jumpstart the economy and improve development prospects.

Despite the disruptions from the pandemic, program performance against quantitative targets for end-December 2020 and the continuous performance criteria was solid. Mainly on account of a strong fiscal effort, four out of six performance criteria were met. The target for the Central Bank of Liberia's (CBL) net international reserve (NIR) accumulation was however missed, mainly because of delays in bank recapitalization and the production of additional Liberian dollar banknotes. We also incurred external debt service arrears, but they have meanwhile been cleared and the amounts involved were marginal. Nonetheless, we are bolstering institutional mechanisms that will help ensure timely payments of both external and domestic debt service going forward. Three out of five indicative targets were observed. Capital spending fell short of the targeted amount due to pandemic-related reprioritization of expenditure and domestic payment arrears arose when domestic debt was serviced with a delay. As the government was focusing on mitigating the health and economic impact of the pandemic, implementation of the program's structural reform agenda fell behind schedule, with only two out of ten structural benchmarks met, but a further four meanwhile implemented.

The attached second Supplement to the Memorandum of Economic and Financial Policies (MEFP) sets out the government's objectives and policies for the rest of 2021 and 2022. The Liberian Legislature approved a prudent special budget covering July-December 2021. Preparations for the

2022 budget are underway, which maintains revenue mobilization efforts, continues to contain the wage will, and otherwise envisages a sizable expansion of development spending financed by part of the SDR allocation. We are replacing the worn-out Liberian dollar banknotes by a new family of currency to bolster confidence and address periodic cash shortages. The currency changeover will be executed with utmost care to minimize operational risk. The CBL has adopted a time-bound implementation plan to this effect. Our monetary program is designed to ensure price stability, further strengthen external foreign currency buffers, and advance de-dollarization. The structural reform agenda remains geared toward fostering financial stability, mobilizing fiscal revenues, improving governance, and fostering economic growth. The Liberian authorities remain committed to staying the reform course and implementing strong policies that will allow the completion of the fourth review of the ECF arrangement.

Based on the strength of our corrective actions and policy agenda moving forward, we request waivers for nonobservance of the floor on the change in NIR for end-December 2020 and for nonobservance of the ceiling on new external payment arrears of the central government. We also request the modification of SBs pertaining to the establishment of the TSA, the submission of the Financial Institutions Act to the Legislature, the destruction of unfit banknotes, and the issuances of guidelines for risk-based supervision guidelines.

In addition, we wish to seek the following modifications in the Technical Memorandum of Understanding (TMU):

- Adding adjustors to the program targets for the primary fiscal balance, NIR and net domestic assets of the CBL, and direct CBL credit to the government to accommodate budgetary use of part of the SDR allocation.

- Adding adjustors to the program targets for the CBL's operational and capital expenditure to accommodate additional outlays for the currency changeover that are reimbursed from the budget.

In view of the policies and measures contained in the attached MEFP, we are requesting completion of the third review of the ECF-supported program and a disbursement of SDR 17 million (6.58 percent of quota).

We will provide information requested by the IMF to assess our policy implementation and will consult with the IMF on additional measures that may be needed during program implementation and in advance of any changes to our policy plans, in accordance with the IMF's policies on such consultation. We authorize the IMF to publish the staff report, including this letter, the attached MEFP and the TMU on its website and other media once the IMF Executive Board approves the third review of the ECF-supported program.

Sincerely,

___________________/s/__________________	__________________/s/_________________
Hon. Samuel D. Tweah	Hon. J. Aloysius Tarlue, Jr.
Minister	Executive Governor
Ministry of Finance and Development Planning	Central Bank of Liberia

Attachments:

- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

INTRODUCTION

1. The COVID-19 pandemic was a painful setback for the Liberian economy, but the government continues to manage the fallout and remains determined to implement its reform agenda. We promptly put in place comprehensive measures in early 2020 to contain the spread of the virus and to cushion the social and economic impact. Local infections remained limited, which allowed lifting the lockdown in the second half of 2020 and recouping some economic losses. A renewed bout of infections this June was quickly quelled as containment measures were temporarily reinstated. With attention focused on fighting the pandemic, reform implementation under Liberia's Pro-poor Agenda for Prosperity and Development (PAPD) for the period 2018–23 fell behind schedule, but much ground has been made up since. Although the risks and uncertainties stemming from the COVID-19 pandemic will remain, we are determined to invigorate the reform momentum necessary for achieving the objectives set out in PAPD.

RECENT ECONOMIC DEVELOPMENTS

2. Economic activity is recovering to pre-pandemic levels amid macroeconomic stability. Improved prospects for the industrial sector, in particular iron ore and rubber production, in the second half of 2020 are estimated to have contained the economic contraction to 3 percent last year. With the service sector recovering from the containment measures and a revival of the global economy, growth is projected at 3.6 percent this year. Prudent monetary policy, disciplined fiscal policy, and remittances inflows that supported exchange rate stability, reduced inflation to 7 percent in August 2021 from almost 20 percent in early 2020. Thanks to the stepped-up international financial support and the allocation of SDRs to the IMF's entire membership, gross international reserves strengthened from 2.3 months of imports to currently 4.5 months of imports. The current account deficit remained broadly stable.

OUTLOOK AND RISKS

3. In 2022, economic growth is expected to pick up further to 4.7 percent. The recovery of the service sector is set to continue, the commodity sector is likely to enjoy favorable prices, recent gyrations notwithstanding, and 2022 fiscal policy will also be supportive. More generally, we expect that our economic reforms will start to pay off. While a temporary rise of inflation to some 12 percent in 2022 is expected as the planned rollout of a new family of LD currency alleviates cash shortages, we expect the underlying disinflation trend to remain intact. The current account deficit is unlikely to show significant movements and the international reserve cover will remain above 4 months of imports, even if the CBL on-lends part of SDR allocation to the government.

4. This economic outlook is predominantly subject to downside risks. While the global economy is benefiting from the rapid deployment of COVID-19 vaccines in advanced economies, setbacks with adverse economic spillovers to West Africa and Liberia cannot be ruled out. Neither can risks of a new wave of local infections. To mitigate them, Liberia is stepping up its vaccination campaign to put the country on track of reaching the WHO goal of having 70 percent of its eligible population vaccinated by 2023, subject to vaccine availability for sub-Saharan Africa. The planned currency changeover comes with multiple operational challenges, but the CBL is determined to do its utmost to keep the operation orderly at all times and carry it out according to high standards of transparency and accountability. On the upside, our reaffirmed structural reform drive and progress with entrenching macroeconomic stability also hold promise for growth turning out stronger than projected.

PROGRAM PERFORMANCE

5. Program performance against end-December 2020 and continuous quantitative targets was quite strong, while the implementation record of the structural reforms was mixed.

6. 4 out of 6 performance criteria (PC) were met:

- The floor on the **primary fiscal balance** has been observed, thanks to strong revenues and disciplined budget execution.
- The public sector refrained from contracting or guaranteeing **new non-concessional external debt**.
- The Central Bank of Liberia (CBL) stayed within set limits for **operational and capital expenditures**.
- The **ceiling on the CBL's gross direct credit to the government** was observed, due to the strong fiscal performance.
- But the government incurred **external payment arrears** in the second quarter of 2021, although they were small and have meanwhile been cleared.
- The target for the **CBL's net international reserve** accumulation was missed by US$10.7 million, mainly reflecting delays in bank recapitalization and in the currency changeover, as the lack of LD banknotes obviated planned foreign-currency purchases. With the currency changeover only starting in December 2021, the end-June 2021 net international reserve target was likewise missed.

7. 3 out of 5 indicative targets (IT) for end-December 2020 were observed:

- **Revenue collections** of the central government exceeded the program floor.

- **Net domestic assets of the CBL** remained below the program ceiling, as base money growth was held back by the LD currency shortage.
- **Social spending** reached the targeted level.
- However, the government incurred **domestic payment arrears**, as domestic debt was serviced only after the due date.
- And **on-budget capital spending** was only 11 percent of the targeted amount due to pandemic-related reprioritization of expenditure.

8. Implementation of the structural reform agenda saw delays due to the pandemic and capacity constraints, with only 2 out of 10 structural benchmarks (SB) met, but a further 4 meanwhile implemented:

- We have compiled an **inventory of tax and customs exemptions**.
- Enhanced compliance **reports on foreign exchange withdrawals** at the CBL were submitted monthly to the Board of Governors (BOG), although the reporting format still needs improvement.
- The external semi-annual **audits of the CBL's foreign exchange reserves** were completed, although some follow-up remains pending.
- We continued to improve and clean the **payroll registry for civil servants**, but the first suspension of salary payments to staff without biometric ID took place at end-April 2021, after the deadline.
- Security arrangements for the **CBL's vault** were upgraded with a delay.
- The inventory and rationalization of public entities' accounts at commercial banks and the CBL has been completed, but policies guiding the establishment of the **Treasury Single Account** (TSA) were signed by the Minister of Finance and Development Planning after the deadline.
- The **audits of Annual Financial Statements** of the public sector for FY2018 and FY2019 have been submitted to the National Legislature and published, albeit with delays. But the submission and publication for the audit of the Annual Financial Statements for FY2020 is now expected only for end-November 2021.
- Amendments to **anti-corruption legislation** have not yet been enacted. They have been submitted to the National Legislature and already passed by the House. Enactment is likely to occur before end-January 2022.

- Quarterly reports to the CBL's BOG on **compliance with policies and procedures** have not been submitted due to delays with establishing a dedicated unit and making it operational.

- Due to unexpected building structure limitations at the CBL, implementation of the **dual control security strategy** experienced some delays. Alternative arrangements have been put in place in the interim.

9. Plans to renew Liberia's currency have changed. The CBL was to submit the request for the authorization from the National Legislature in late 2020 to print additional LD banknotes but did so only in mid-January. With a national consensus emerging around introducing a new family of currency, the National Legislature authorized a comprehensive currency changeover in early May 2021. Preparations are underway, but the rollout will commence in December 2021, rather than in the first half of 2021 as originally targeted under the program.

10. We have maintained an exchange system free of restrictions on the making of payments and transfers for current international transactions. Although the surrender requirement on remittances was an important source for building our foreign reserve buffers, it remains suspended. Interest income on the consolidated GOL debt has since become the main source of foreign exchange for the CBL.

ECONOMIC AND FINANCIAL POLICIES FOR THE PROGRAM

A. Fiscal Policy

11. Fiscal performance in FY2021 came in strong. The primary fiscal deficit excluding grants overperformed the program target by US$30 million (0.9 percent of GDP), allowing the accumulation of government deposits at the central bank, which are available for drawdown in the next budget. This was mainly the result of a strong revenue performance, due to the introduction of a fuel excise tax, changes in the application of the personal income tax, a robust border tax collection on the back of strong imports, and progress with revenue administration reforms. Some of this fiscal space was used for selected hiring of teachers, health workers, and prosecutors and for supporting critical SOEs.

12. The National Legislature approved a budget for July-December 2021 that is free of central bank borrowing and consistent with macroeconomic stability. This special budget covers only a six-month period to align fiscal and calendar years from 2022 onward. Its resources benefit from a US$30 million windfall from the signing of a mining concession, the draw-down of government deposits at the central bank, and the likely continuation of the robust recent revenue performance. This allows a marked expansion of capital spending and a US$10 million contribution for the printing of the new currency, while the wage bill remains flat and other spending rises only slightly faster than the economy. The budget is broadly in balance and in a deficit to the tune of 0.4 percent of GDP if bank recapitalization costs are included. The government remains committed to be cautious in the execution of the budget and keeps spending in line with available resources while closely monitoring revenue developments. In this context, we reaffirm our commitment to the dual authorization system for cash releases by the Budget Department and the Fiscal Affairs Department while ensuring that funds, if available, are released in a timely manner.

13. We remain committed to further strengthening public finances. While our overall focus is directed at further strengthening revenue mobilization and improving spending efficiency, a number of specific measures are being put in place.

- In order to strengthen control of the public wage bill, the Minister of Finance and Development Planning issued a circular to discontinue wage payments for public employees without biometric ID effective from end-April. A detailed report on the scope and impact of the suspension has been provided to IMF staff. Going forward, we remain committed to containing the wage bill and balance new hiring in priority areas with departures in other areas over time, with a view to creating fiscal space for investment and goods and services outlays.

- With technical assistance from the IMF, we have compiled a tax exemption inventory. An ad-hoc intern-ministerial committee produced a first tax expenditure report for border taxes. Building on these reforms, we will enhance the reporting system for tax expenditures to facilitate the production of a full tax expenditure report for the 2023 budget and compile a list of concrete measures to streamline exemptions (*SB for end-June 2022*).

- We are progressing with establishing the Treasury Single Account (TSA). We have reconciled the inventory of accounts of ministries, agencies, and commissions (MACs) in commercial banks with MACs' records and the Minister of Finance and Development Planning has signed the TSA strategy. An SB set in the last program review established the next steps, notably closing MACs' accounts in commercial banks, transferring the balances to the CBL, and providing the list of remaining accounts to IMF staff (*SB reset for end-December 2021*). Furthermore, we commit to transferring any remaining MACs' accounts at commercial banks to the CBL and finalizing the TSA's new account structure at the CBL (*SB for end-March 2022*).

- To further strengthen expenditure control, the government will issue a circular to mandate that government contracts are required to be accompanied by IFMIS-generated purchase orders to be valid (*SB for end-December 2021*).

- To better guard against the recurrence of debt service arrears going forward, the government will authorize the CBL well in advance to make the payments falling due and sweep funds from the consolidated revenue fund as needed. An MOU will be signed between the CBL and the Ministry of Finance and Development Planning that will establish the operational modalities for this operational framework.

- The government is intent on improving the quality of spending, not only by redirecting resources toward investment and containing the wage bill, but also by making spending on goods and services more efficient. As a first step toward this end, the Ministry of Finance and Development Planning will review existing allocations, develop an analytical monitoring tool, and identify unproductive spending.

- Regarding legacy government payment arrears, we will gradually pay them down in accordance with our arrears-payment strategy.

- We are stepping up efforts to collect more dividends from the Liberian Telecom Authority and the Liberian Maritime Authority. Modalities how best to fully integrate these agencies into the budget are under discussion.

- We are introducing more tamper-proof excise tax stamps.

- We have kicked off the project to replace the general sales tax by a value-added tax over the next 2-3 years with a public announcement.

14. The Liberian authorities intend to redirect part of the SDR allocation to the 2022 budget while ensuring that our gross official international reserve position remains robust throughout. The IMF's SDR allocation was timely as resources and reserves are running low in the wake of the pandemic. To ensure external stability we will not allow our international reserve cover to drop below 4 months of imports. This should still allow the CBL to on-lend up to US$80 million to the government in 2022. The reserve position will be reassessed toward end-2023 for potential additional on-lending scope in 2023. On-lending modalities will be governed by a memorandum of understanding between the CBL and the government, with a view that all associated costs and risks that may arise for the CBL will be borne by the government.

15. The government is committed to draw on SDR resources only to the extent that they are financing the following priority policies, with program targets designed accordingly:

- To strengthen our resilience against the COVID-19 pandemic, we plan to spend up to US$10 million for vaccines and their administration.

- To reduce the government's interest bill and to free resources for bank lending, we plan to retire all outstanding T-bonds currently held by banks in the amount of LD 6 billion (around US$35 million).

- To help jump start the economy and improve development prospects, we plan to spend an additional US$35 million on high priority investment to supplement our public investment program and expand its envelope to US$98 million, excluding US$23 million for the road fund and US$35 million allocated for conducting the 2023 elections. Many projects, especially roads, are at an advanced stage of preparation and making long-delayed contributions to the counterpart funds for donor financed projects and resettlement funding will have a catalytic effect. Key projects comprise:

Project	Costs (US$ millions)
County projects Construction of 500 pro-poor housing units, completion and upgrade of the Bong County Technical College, and construction of the Sanniquelle Hospital in Sekimpa.	10
Transformer project Connecting additional households along the Monrovia - Kakata corridor, the Monrovia -Bomi corridor, and the Monrovia-RIA corridor to the electrical grid.	2
Resettlement Action Plan payment Resettlement of affected persons in Ganta-Saclepea under the World Bank sponsored SECRAMP I road project and in Sanniquelle-Logatuo under the AfDB sponsored road projects.	4
Road project Part-payment for expansion of the 44.5 km access road to Robert International Airport (RIA).	10
Road construction equipment Procurement of dump trucks, bulldozers, frontend loaders, compactors, and excavators to increase the Ministry of Public Works'capacity for rural road maintenance.	3
Other projects Community water kiosks project intended to provide safe drinking water for rural communities; renovation of the University of Liberia Campuses; and contribution to interconnecting Liberia to the regional electricity grid and the West African Power Pool.	6
Total	**35**

16. We are committed to preparing a prudent budget for 2022. It will be free from central bank borrowing, except for the SDR on-lending operation, and based on realistic revenue projections. We remain committed to retain our efforts to mobilize domestic revenues. On the expenditure side, the thrust remains to keep the wage bill flat, rationalize goods and services spending while allowing judicious increase where they have productive impact, and boosting investment. Based on our preliminary estimates, we intend to present the budget to the National Legislature for approval with a resource envelope of US$780 million, including US$635 million from domestic revenues. On the expenditure side, the budget will keep the wage bill flat in nominal terms at some US$300 million, set aside another US$10 million as the government's contribution to the costs of the currency change-over, start providing for the October 2023 general elections, and substantially increase the allocation for capital spending. On this basis, the primary deficit excluding grants is estimated at US$29 million (0.8 percent of GDP)

17. We are committed to maintaining Liberia's moderate risk rating for external debt distress in the Debt Sustainability Analysis (DSA) and, cognizant of the high-risk rating for overall public debt distress, we will remain judicious in taking on domestic debt. Debt dynamics benefit from our prudent medium-term fiscal framework, IMF debt service relief under the Catastrophe Containment and Relief Trust (CCRT), and our continued commitment not to contract or guaranteed new non-concessional external debt. Since March 2021, we have also been participating in the Debt Service Suspension Initiative (DSSI) and are awaiting the responses from the creditors. On this basis, nominal public debt is projected to decline from 56 percent of GDP at end-2021 to 50 percent of GDP in 2026.

B. Monetary Policy and Central Bank Governance

18. Good progress has been made with bringing inflation down to single digits. Despite a slight loosening of monetary policy at the height of the COVID-19 pandemic, the prudent monetary policy and fiscal discipline remained largely geared toward managing liquidity and moderating inflation. In light of the positive inflation developments, the central bank reduced its monetary policy rate by a further 500 bps to 20 percent in August 2021. While inflation may temporarily rise with the introduction of the new currency, we will remain vigilant to the risks of the inflationary pressures and stay committed to maintaining the monetary policy stance geared toward containing inflation. The harmonization of the required reserve ratios for LD and USD deposits remains a medium-term objective though. CBL bills will remain a vehicle dedicated to finetuning monetary policy.

19. The focus of the CBL in the period ahead is on achieving a smooth and expeditious implementation of the currency change-over. The change-over has three objectives: (i) ending the periodic cash shortages, especially when seasonal demand for currency is high; (ii) replacing the large amount of worn-out banknotes; and (iii) retiring all previous banknote series to have only one unified family left in circulation. To have new banknotes arrive ahead of the Christmas season, we have already placed an emergency order through sole sourcing for a limited number of LD100 banknotes slated to arrive in late November, which should satisfy the immediate cash needs. A request for proposals for the printing of the remaining banknotes was issued in early October.

20. The CBL is conscious of the scale of the task at hand and is engaging in risk mitigating measures. We are carefully reviewing operational capacities and committed to scaling them up to ensure that the change-over is executed in an orderly and transparent manner. Drawing on the input from international partners and the experience of other central banks in the sub-region, we are drawing up a time-bound implementation plan. It will be adopted by the CBL's Board of Governors as a *prior action* for this program review. It is guided by the following principles:

- Ensuring that the first liquidity injection comes before the festive season to avoid renewed cash shortages.
- Otherwise following a gradual approach so as not to overwhelm capacities. Denominations will be introduced sequentially with the new currency being made gradually available for exchange over the course of the campaign. Yet, all denominations will have been introduced over the course of the second semester of 2022 and about 60 percent of the new banknotes and coins will have arrived in Liberia. The balance will be delivered in 2024 as the National Legislature's resolution does not allow deliveries in the election year of 2023.
- Allowing a generous period in which the old currency remains legal tender and can be exchanged to reassure the public that it does not need to fear that their cash holdings are invalidated.
- Relying on existing channels and time-proven arrangements for the exchange of the currency to the extent possible to avoid negative surprises and foster transparency.
- Fully engaging commercial banks to preserve CBL capacities.
- Building flexibility and margins into the plan to be better equipped to deal with unforeseen developments.

21. While governance arrangements and internal controls at the CBL have seen improvements, efforts will be made over the next 6-12 months to complete outstanding reforms. The CBL introduced external audits for cash recording and inventory management, improved quality of monetary data, instituted reconciliation of vault positions, and adhered to established procedures for opening and closing of government accounts. The CBL Management and Board of Governors (BOG) recognize the importance of addressing the outstanding recommendations from the 2020 Safeguards Assessment aimed at establishing strong governance and oversight. In addition to its work program (Table 6), the CBL commits to:

- Finalizing and implementing a comprehensive policy that governs all financial accounting procedures and reconciliations to ensure the accurate and timely statement of the CBL's financial records.
- Regularizing the processes for the timely completion of the external audits and the publication of annual financial accounts to become consistent with the stipulated timeline in the Amended and Restated CBL Act. Draft financial reports for 2020 were still under management review in October 2021, well beyond the mandated date. The newly appointed

external auditors will conduct an interim audit for 2021 shortly to ensure that the next financial report is published in accordance with the deadlines set out in the CBL Act.

- Ensuring the highest level of accountability for FX reserves by (i) timely conducting the semi-annual external audits on foreign exchange activity, as per the *SB* under the ECF arrangement, (ii) resolving outstanding audit items pertaining to foreign reserve assets, and (iii) strengthening the internal governance arrangements and developing an investment policy for FX reserves. We will enhance the reporting on foreign exchange activity to the BOG. The furnishing of monthly reports remains an *SB*.

- Continuing to strengthen management and Board oversight and governance through enhancements to internal audit reporting and the implementation of outstanding audit recommendations.

- In line with the Enterprise Risk Management Policy, submitting quarterly compliance reports to the BOG with details of deviations from CBL's policies, procedures, and stated regulatory requirements. The CBL's BOG has approved the establishment of a compliance section under the Executive Governor and will work towards finalizing its terms of reference for discharging the compliance function. The first quarterly compliance report is envisaged to be furnished for the first quarter of 2022 (*reset SB*).

- Putting in place the remaining security upgrades will be considered over the near term to further support current efforts to strengthen internal controls in cash currency management. (*SB for end-December 2021, reset from end-December 2020*)

C. Financial Sector Policies

22. We recognize that maintaining financial sector stability requires strong supervisory and regulatory enforcements. While banks are generally compliant with prudential capital and liquidity requirements, we will further buttress the application of supervisory sanctions for the banks with inadequate capitalization or in violation of reserve requirements. To further strengthen the regulatory environment for the financial sector, we are proceeding with revisions of the Financial Institutions Act (FIA). We will expeditiously decide on outstanding policy issues, such as the supervision of non-bank financial institutions and funding in the event of resolution. We aim to submit the draft FIA to the National Legislature by end-February 2022 (*reset SB from end-June 2021*). The revised FIA will help to introduce a Comprehensive Resolution Regime that would enable the resolution of banks that are considered non-viable without systemic disruptions and without placing financial burden on taxpayers. Operational guidelines for the effective functioning of the resolution regime will be approved by end-April 2022 (*SB reset for end-September 2021*), followed by the establishment of an organizational unit to develop and execute effective resolution strategies for financial institutions by end-May 2022 (*SB reset from end-June 2021*). Furthermore, the CBL remains committed to issuing the revised Risk-Based Supervision Guidelines once the new FIA is approved based on the technical assistance provided by the IMF (*SB for end-April 2022 reset from end-June 2021*)

23. The financial sector continues to experience high levels of non-performing loans (NPLs). The system average NPLs ratio has risen during the pandemic but declined from a peak of 27 percent in March to 23 percent in June 2021 against the 10-percent regulatory threshold. Loan quality across the financial sector suffered from inadequate credit administration and underwriting standards at banks and the negative impact of COVID-19. To ascertain banks' adherence to prudential guidelines, including proper loan classification and provisioning, the CBL is conducting asset quality reviews and scrutinizes banks' resolution strategies for NPLs. To facilitate the reduction in NPLs, the CBL has reviewed the recovery strategies presented by the banks and recommended revisions to further strengthen the plans of some banks. Enhancing credit standards by upgrading the CBL-managed credit registry drawing on the ongoing diagnostic review by the World Bank to upgrade the system to enhance loan appraisal going forward.

GOVERNANCE AND STRUCTURAL REFORMS

24. The fight against corruption remains a key objective of Liberia's PADP. While we have progressed with strengthening Liberia's governance framework in recent years, notably in the area of public financial management, we recognize that more is needed to improve outcomes.

- The government submitted the drafts of the Liberia Anti-Corruption Commission (LACC) Act, the Whistleblower and Witness Protection Act, and amendments to the Code of Conduct to the Legislature in May 2021. While the House of Representatives approved the drafts in August 2021, the Senate is expected to take this up later this year and the government commits to their adoption by end-January 2022 (*reset and modified SB, from end-March 2021*). The draft LACC Act grants the LACC first-tier prosecutorial powers and puts it in charge of running the asset declaration regime for senior public officials, including authority to recommend sanctions for non-compliance. The amended Code of Conduct would allow for access to declarations by court order, with rulings guided by the Freedom of Information Act and other pertinent legislation. The LACC's annual report will inform the general public about the agency's activities related to the asset declaration regime, including summary statistics.

- To strengthen the effectiveness of the LACC, we are committed to expeditiously filling the two remaining vacancies on its board in accordance with set procedures. Recognizing the importance of restoring trust in the institution, the corruption allegations against two LACC top officials have been referred to the Ministry of Justice for investigation. We intend to make the findings public.

- The Public Procurement and Concessions Commission (PPCC) is determined to further improve transparency. Contracts and contract award documents above the thresholds of

US$200,000 for goods, US$400,000 for works, and US$100,000 for services are already published on its website on an ongoing basis. The key information on a few missing contracts pertaining to FY2020, including legal ownership were filled in May. Key information, including the texts of contracts, pertaining to FY2021 are currently being posted. The PPCC is also working toward publishing the key information on a few remaining COVID-19 related procurement contracts. Going forward, firms bidding on public procurement contracts will be required to also disclose beneficial ownership information, which will be published by the PPCC for the winners. The PPCC will see to it that beneficial ownership information of past contracts winners is obtained to the extent feasible. The Ministry of Finance and Development Planning will put in place mechanisms to better ensure that public entities submit all required procurement documentation to the PPCC in a timely manner. The PPCC plans to pilot an electronic procurement system in late 2022, which should greatly ease the administrative burden, further improve transparency, and improve the timeliness of the information provided.

- Regarding the financial audits of the government accounts, we are working on reducing delays and addressing past disclaimers. With the FY2018 and FY2019 audits already completed and published, we are aiming to submit the FY2020 report to the National Legislature by end-November 2021 (*SB reset from end-February 2021*). Disclaimers relate primarily to inadequate documentation of transactions. To help ensure the timely provision of the required documentation to the General Auditing Commission (GAC) going forward, we have launched an Electronic Document Management System last year. Furthermore, GAC is preparing a list of policy options that would allow it to prepare audit reports without excessive disclaimers going forward. To ensure accountability of Covid-related spending incurred in 2020, we are conducting a special audit of such spending and intend to complete it by end-December 2021.

25. We are determined to improve Liberia's business environment to foster private sector development. Many of the challenges are well-known and a conference with a focus on the judiciary has been held. The findings will further inform the development of the business and investment climate roadmap. To make tangible progress, we intend to establish a new framework that will facilitate engagement of all relevant stakeholders with the private sector and establish a log frame with concrete priority actions, milestones, and entities in charge of implementation (*SB for end-March 2022*).

26. Addressing vulnerabilities emanating from weaknesses in the legal and regulatory oversight of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) are also important for business confidence. Work with regional and international partners have continued, and core AML/CFT legislation is expected to be passed by the National Legislature by end-2021. The law will establish a National Coordination Committee (NCC), chaired by the Minister of Finance and Development Planning and comprising key stakeholders, including the CBL, the

Financial Intelligence Unit (FIU), and the Ministry of Justice, which will manage the work on developing a coherent strategy for implementation and oversight of the revised AML/CFT laws and regulations. In the interim, existing structures will push ahead with preparatory work to ensure a smooth transition to the new framework. A new National Risk Assessment report was completed and published in September 2021.

PROGRAM MONITORING

27. The program will be monitored by quantitative performance criteria, structural benchmarks, indicative targets, and semi-annual reviews, as set out in Tables 1 to 5 of this memorandum and the attached technical memorandum of understanding, which also defines the scope and frequency of data to be reported for program monitoring purposes. The fourth, fifth and sixth reviews are expected to be completed on or after December 1, 2021, June 1, 2022, and December 1, 2022, respectively.

Table 1. Liberia: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) for the Program Under the ECF Arrangement, December 2020–December 2022

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

	Dec. 2020			Mar. 2021			Jun. 2021			Sep. 2021	Dec. 2021	Mar. 2022	Jun. 2022	Sep. 2022	Dec. 2022
	PC	Prel.	Status	IT	Prel.	Status	PC	Prel.	Status	IT	PC	IT	PC	IT	IT
											Proposed				
Performance Criteria[1]															
Floor on primary fiscal balance, excluding grants[2, 3]	-15.0	-9.9	Met	-25.0	4.0	Met	-33.4	3.3	Met	8.4	18.5	-21.0	-19.1	-8.1	-29.2
Ceiling on contracted new non-concessional external debt of the public sector (continuous basis)	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	Met	0.0	3.3	Not met	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the CBL's operational and capital expenses[4, 5]	24.2	24.1	Met	12.8	7.4	Met	20.6	12.6	Met	26.3	30.1	12.8	20.6	26.3	30.1
Floor on the change in the CBL's net international reserves[4, 6]	-13.5	-24.2	Not met	4.8	8.9	Met	29.4	27.2	Not met	34.1	369.3	9.8	14.3	23.4	35.1
Ceiling on CBL's gross direct credit to central government[7]	557.7	557.7	Met	557.7	557.7	Met	548.8	548.8	Met	548.8	539.9	535.3	528.8	528.8	528.8
Indicative Targets															
Floor on total revenue collection of the central government[2]	197.1	229.9	Met	328.5	353.8	Met	438.0	522.5	Met	118.2	309.0	152.5	305.0	482.5	634.9
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	Met	0.0	2.8	Not met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Floor on social and other priority spending[2]	32.8	34.5	Met	49.2	52.7	Met	65.6	71.0	Met	16.0	33.9	21.5	37.4	56.0	74.7
Floor on on-budget capital spending[2]	6.1	0.6	Not met	9.0	2.2	Not met	11.8	3.0	Not met	6.6	25.0	29.6	36.1	48.7	78.3
Ceiling on net domestic assets of the CBL[7]	267.9	262.0	Met	263.7	264.1	Not met	239.7	240.7	Not met	235.7	273.6	269.0	252.6	255.4	244.1
Memorandum Items															
Ceiling on disbursement of concessional external debt	310.0	232.2	Met	338.0	244.7	Met	365.0	317.4	Met	405.0	440.0	472.7	505.4	538.1	570.8
Floor on wage bill of school teachers[2]	16.6	16.5	Not met	24.9	24.8	Not met	33.2	33.2	Met	8.0	16.0	8.9	17.8	26.8	35.7
Floor on wage bill of core and non-core clinical health workers[2]	16.2	17.9	Met	24.3	27.8	Met	32.4	37.6	Met	7.8	15.6	7.8	15.6	23.4	31.1
Floor on spending on home-grown school feeding program[2]	0.01	0.10	Met	0.01	0.21	Met	0.01	0.33	Met	0.13	0.25	0.13	0.25	0.38	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] Numbers before July 2021 are cumulative from the beginning of the fiscal year (July-June), September 2021 and December 2021 targets are cumulative from July 2021, 2022 targets are cumulative from beginning of the calendar year.

[3] 2022 floors shall be adjusted up by the sum of shortfalls in investment spending and shortfalls in spending on COVID-19 vaccines and their administration. This adjuster shall not be negative and is capped at US$45 million. Shortfalls are relative to reference values shown in table 2 of the TMU. In addition, July-December 2021 and 2022 floors shall be adjusted down by the amount of excess budget support. Excess budget support shall be relative to reference values in Table 2 of the TMU.

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

[5] The ceiling shall be adjusted up by the transfers from the GOL to the CBL to help finance the currency changeover operation. 2022 targets will also be adjusted up by any underspending in 2021.

[6] 2022 floors shall be adjusted down by the amount of foreign currency on-lending by the CBL to the GOL of the SDR allocation. This adjustor shall be capped at US$80 million.

[7] 2022 ceilings shall be adjusted up by the amount of on-lending by the CBL to the GOL of the SDR allocation. This adjustor shall be capped at US$80 million.

Table 2. Liberia: Prior Action for Third ECF Review, 2021		
	Rationale	**Status**
Currency Changeover		
The CBL board to adopt an implementation plan prepared in consultation with IMF staff that ensures timely availability of additional currency while not overwhelming operational capacities.	Guard against disorderly currency changeover.	

Table 3. Liberia: Structural Benchmarks for the Program for the Third ECF Review				
		Target Date	**Rationale**	**Status**
	Tax Administration			
1	Develop an inventory of tax exemptions by type and industry; and specify whether it is discretionary or provided for in the tax law and the timeframe for which it applies.	End-December 2020	Assess amount of revenue foregone.	**Met**
	Public Financial Management and Governance			
2	Improve fiscal transparency and accountability by: i. Submitting audit reports for FY2018 and FY2019 budget to the Legislature, and ii. Submitting the audit report for FY2020 budget to the Legislature.	End-December 2020 End-February 2021	Improve fiscal transparency and accountability.	**Not Met**, FY2018 and FY2019 reports submitted with delay. Target date for FY2020 report reset for December 2021 (fourth review).
3	Improve and clean the civil service payroll registry by: (i) no government worker will be paid without biometric ID; and (ii) 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.	End-March 2021	Necessary to eliminate ghost workers.	**Not Met**, implemented with delay. Salary suspension applied from April 2021.
4	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; and (ii) complete the stock-taking exercise of bank accounts.	End-March 2021	A preparatory measure to prepare for eventual adoption of a treasury single account.	**Not Met**, implemented with delay.

Table 3. Liberia: Structural Benchmarks for the Program for the Third ECF Review (concluded)

	Improve Governance at the Central Bank of Liberia			
5	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.	30 days after each quarter beginning for 2020 Q4	Improve compliance with policies and regulations.	**Not Met**, reset to start from 2022 Q1 (fifth review).
	Internal Controls of the CBL			
6	Enhance reporting practices on foreign exchange withdrawals through compilation of reports on foreign exchange withdrawals from the CBL and timely submission of these reports to the BOG monthly;	Starting with the report for November 2020	Enhance internal controls.	**Met**
7	Enhance reporting practices on foreign exchange withdrawals through semi-annual external audits on the foreign exchange reserves of the CBL.	Within six weeks after every six months starting from 2020		**Not Met**, implemented with delay in April 2021 for December 2020 audit report.
	Cash currency management			
8	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.	End-December 2020	Improve cash currency management.	**Not met**, implemented with delay.
9	Set up a dual control security strategy. One example may be by implementing two door lock-system.	End-December 2020	Improve cash currency management.	**Not met**, reset for end-December 2021 (fourth review).
	Strengthen Anti-Corruption Measures			
10	Enact the revised LACC Act that provides (i) the LACC first tier prosecutorial power over corruption and related economic and financial offenses; (ii) for scope and requirements of an effective system of asset declarations for senior public officials in line with international best practices, including by providing the LACC with the power to receive and verify the declarations, ensure public access to the declarations and sanction public officials who fail to declare or provide false information.	End-March 2021	Improve governance and reduce corruption vulnerabilities.	**Not met**, modified and reset for end-January 2022 (fourth review).

Table 4. Liberia: Structural Benchmarks for the Program for the Fourth ECF Review

		Target Date	Rationale	Status
	Public Financial Management and Governance			
1	Complete the inventory and rationalize bank accounts with the CBL and commercial banks, which will entail: (i) 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); (ii) 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 (iii) supply a list of bank accounts that remain at commercial banks to IMF staff along with a rationale for their continued existence.	End-December 2021	Preparatory measure to prepare for eventual adoption of a treasury single account.	**In progress**, target pushed back from June 2021.
2	Submit the audit report for the FY2020 budget to the Legislature.	End-November 2021	Improve fiscal transparency and accountability.	**In progress**, reset from February 2021 (third review).
3	Government to issue a circular to mandate that government contracts need to be accompanied by IFMIS-generated purchase orders to be valid.	End-December 2021	Prevent emergence of arrears.	
	Internal Controls of the CBL			
4	Enhance reporting practices on foreign exchange withdrawals through semi-annual external audits on the foreign exchange reserves of the CBL.	Within six weeks after every six months starting from 2020		**Recurrent**
5	Enhance reporting practices on foreign exchange withdrawals through compilation of reports on foreign exchange withdrawals from the CBL and timely submission of these reports to the BOG monthly.	Starting with the report for November 2020	Enhance internal controls.	**Recurrent**
	Bank Supervision			
6	Submit to the Legislature amendments to the Financial Institutions Act (FIA) of 1999 that seek to anchor the CRR 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.	End-February 2022	Improve financial sector stability.	Target date pushed back from July 2021.

Table 4. Liberia: Structural Benchmarks for the Program for the Fourth ECF Review (concluded)

7	Issue the Risk-Based Supervision (RBS) Guideline in accordance with IMF TA recommendations.	End-June 2021	Improve financial sector stability.	Target date pushed back to April 2022 (fifth review).
	Cash Currency Management			
8	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.	End-June 2021	Improve cash currency management.	**Met**
9	Destroy unfit notes to create space in the operational vaults, mitigate risks, and better and more accurately reflect circulation figures.	End-November 2021	Improve cash currency management.	Target date pushed back from June 2021 to align with currency changeover.
10	Set up a dual control security strategy. One example may be by implementing two door lock-system.	End-December 2021	Improve cash currency management.	Target date pushed back from December 2020 (third review).
	Strengthen Anti-Corruption Measures			
11	Legislature to adopt the Whistle Blower and Witness Protection Act to provide effective protection from potential retaliation for reporting persons, witnesses, and victims in accordance with the UNCAC and best international practices.	End-January 2022	Improve governance and reduce corruption vulnerabilities.	Reset from June 2021 (third review).
12	Legislature to adopt the Liberia Anti-Corruption Commission (LACC) Act and amendments to the Code of Conduct. The draft LACC Act grants the LACC first-tier prosecutorial powers and puts it in charge of running the asset declaration regime for senior public officials, including authority to recommend sanctions for non-compliance. The amended Code of Conduct allows for access to declarations by court order, with rulings guided by the Freedom of Information Act and other pertinent legislation.	End-January 2022	Improve governance and reduce corruption vulnerabilities.	Reset from June 2021 (third review) and modified.

Table 5. Liberia: Structural Benchmarks for the Program for the Fifth ECF Review				
		Target Date	**Rationale**	**Status**
	Public Financial Management and Governance			
1	Transfer all government accounts to the CBL and establish the account structure at the CBL.	End-March 2022	Establishment of an effective Treasury Single Account.	**In progress**
	Domestic Revenue Mobilization			
2	Government (i) to prepare and annex to the CY2022 budget a full tax expenditure report and (ii) to draw up a list of concrete measures to streamline exemptions.	End-June 2022	Transparency in granting exemptions and revenue mobilization.	
	Improve Governance at the Central Bank of Liberia			
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.	30 days after the end of the quarter beginning with a report for 2022 Q1	Improve compliance with policies and regulations.	**In progress**, reset from 2020 Q4 (third review).
	Internal Controls of the CBL			
5	Enhance reporting practices on foreign exchange withdrawals through compilation of reports on foreign exchange withdrawals from the CBL and timely submission of these reports to the BOG monthly.	Starting with the report for November 2020	Enhance internal controls.	**Recurrent**

Table 5. Liberia: Structural Benchmarks for the Program for the Fifth ECF Review (concluded)

6	Enhance reporting practices on foreign exchange withdrawals through semi-annual external audits on the foreign exchange reserves of the CBL.	Within six weeks after every six months starting from 2020		**Recurrent**
	Banking Supervision			
7	Approve operational guidelines, policies, and manuals needed for the effective functioning of the comprehensive resolution regime.	End-April 2022	Improve financial sector stability.	Reset from September 2021 (fourth review) to await passage of Financial Institutions Act
8	Establish an organizational unit that is tasked with the development and execution of effective resolution strategies for financial institutions under the CRR. This unit will ensure that emergency liquidity assistance (ELA) and CRR operating frameworks remain effective in providing a backstop for any emergent weaknesses in the financial sector.	End-May 2022	Improve financial sector stability.	Reset from December 2021 (fourth review) to await passage of Financial Institutions Act
9	Issue the Risk-Based Supervision (RBS) Guideline in accordance with IMF TA recommendations.	End-April 2022	Improve financial sector stability.	Reset from June 2021 (fourth review) to await passage of Financial Institutions Act
	Improving the Business Environment			
10	Designate overall responsibility for business climate improvements within government and establish a log frame with concrete priority actions, milestones, and entities in charge of implementation.	End-March 2022	Promoted private sector development.	

Table 6. Central Bank of Liberia (CBL): Work Program

October, 2021

	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	**Met**. The draft amended Act with comments from the IMF staff was submitted to the National Legislature. It was enacted in October 2020.
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		Ongoing, starting with 2019 Financial Statement	**Ongoing**. Starting with the 2019 financial statement, additional notes have been included in the financial statement on financial instruments.
	(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	**Met**. The revised accounting manual was approved by the BOG in September 2020? And includes the accounting procedures for the year-end.
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	**In progress**. The BOG has authorized the establishment of a compliance section, and a deputy director has been appointed. Work has commenced on the ToR for the section. The CBL

Table 6. Central Bank of Liberia (CBL): Work Program (continued)
October, 2021

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	Ongoing, due within six weeks after every six-month period.	**Met**. Monthly reports on FX withdrawals have been submitted to Management and BOG monthly. **Met**. FX reports for June 2021 has been completed.
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	**In progress**. External auditing firm has furnished report for 2020. Its services have been retained for another year. A restructuring and training program to act upon the report's finding is being prepared.
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	**Met**. **Met**. The U.S. Treasury Department provided technical assistance and furnished an assessment report that broadly confirmed the CBL's findings.
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.	RSD	End-December 2020	**In progress**. RSD has completed AQ reviews for 8 banks, with the remaining 1 institution to be done by end-2021. Findings to date indicate gaps in credit underwriting standards and misclassification of loans that impact provisioning.
8	CBL to incorporate the findings from the U.S. Treasury TA on the draft Resolution Plan (November 2020) for undercapitalized banks and submit Final Resolution Plan to IMF for consideration.	RSD	End-March 2021	**Met** The assessment by the U.S. Treasury was similar to findings of the ERSRT, relevant updates were incorporated in the resolution plan. Significant progress has been made in the implementation of the resolution plan.

Table 6. Central Bank of Liberia (CBL): Work Program (continued)
October, 2021

9	Ensure implementation of components of the Final Resolution Plan as per the agreed schedule.	BOG/Minister of Finance	End-September 2021	**In progress**. A start has been made with implementing key elements. Next steps will be implemented as the resolution plan is updated.
10	Introduce a Comprehensive Resolution Regime (CRR) 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:	RSD	End-December 2021	**In progress**. The RSD developed a draft Crisis Management Framework and shared a copy with AFRITAC West II for desk review. 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, as the supporting legal framework.
	(i) Submit to the Legislature amendments to the Financial Institutions Act of 1999 that seek to anchor the CRR 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;	RSD/Legal Counselor	End-July 2021	**In progress**. The Draft Financial Institution Act is at an advanced stage but needs further strengthening by including additional provisions for the supervision of NBFIs, supervision of holding companies, oversight for resolution funding, and credit concentration. Additional policy positions on the inclusion of capital provisions and liquidity requirements are needed for its finalization.
	(ii) Approve operational guidelines, policies and manuals needed for the effective functioning of the SRR; and	BOG	End-December 2021	Actionable only once the revised FIA will come into effect.

Table 6. Central Bank of Liberia (CBL): Work Program (continued)
October, 2021

	(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 2022	Actionable only once the revised FIA will come into effect.
11	Update the risk-based framework by: • Reviewing, and amending if necessary, the Risk Management Guideline that has been issued to banks and is used to assess the risk management practices, policies, and systems of each bank. • Harmonizing rating methodologies. Current hybrid approach using RAS and CAMELS assessment can lead to contradictory results. • Further improving the capacity of supervisory staff in RBS through training and review of manuals, policies, and procedures. • Reviewing, and amending if necessary, the existing Enterprise Risk Management System that covers the risk profile of each bank. • Reviewing and amending the existing Enterprise Risk Management System that covers the risk profile of each bank. Reviewing, and amending if necessary, CBL's Corporate Governance Regulation and the Regulation for Licensing of Banks to ensure they are sufficiently strong to fully assess the qualification, competency, and integrity of all persons occupying senior positions at commercial banks.	RSD	End-September 2021	**In progress**. The draft RBS Framework has been developed, and consultations with banks completed. Approval of the framework is targeted for Oct 2021 by the FSC, to make way for Board submission and approval.

Table 6. Central Bank of Liberia (CBL): Work Program (continued) October, 2021				
Cash Currency Management				
12	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	**Met**. The department has improved its inventory management of cash by ensuring that all vault stock movements are recorded by the vault registrar or coordinator in a journal and in the system immediately on receipt. This process is in place and ongoing.
13	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	**Met**. The process of keeping daily records on cash, in terms of number of notes, values, denominations and level of fitness is now operationalized.
14	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	**Met**, implemented with delay. The CBL is able forecast banknote demand based on a template developed in collaboration with IMF staff and TA experts.
15	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**. The CBL was unable to make much progress during the shortage of Liberian dollar banknotes as they were sorting unfit banknotes for recirculation. Destruction will be concluded ahead of the currency changeover.
16	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	**Met**. The CBL transferred cash from the Waterside reserve vault to the CBL in December 2019.

Table 6. Central Bank of Liberia (CBL): Work Program (concluded)

October, 2021

17	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	**Met**. Measures implemented (presence of physical security) to enforce the use of swiping device on door linking banking hall, teller unit and the vault. **In progress**. Swiping devices that were installed needs to be replaced. Targeted for end-December 2021.
18	Set up a dual control security strategy. One example may be by implementing two door lock-system.	BD	End-December 2020	**Not Met**. The CBL has managed to improve the security condition of the cash section by the addition of close circuit TV and security personnel. Something similar could work for the CBL but not the one KROLL recommended. Two lock-door system is not applicable at this time.
19	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 Reset for June 2021	**Met**. The CBL has put in place the necessary restrictions by activating the biometric access and restricted access only to authorized staff. **Met**. All unwanted items in the vault were relocated from the vault.
20	Submit the emergency procurement request to the Legislature to ensure printing of sufficient Liberian dollar banknotes. 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.	BOG / Ministry of State	End-January 2020 Continuous	**Met**. The legislature approved the printing of LD4 billion, and banknotes were delivered in July 2020. **Not Met**. In a change of plan the Legislature has tasked the CBL with a comprehensive currency exchange operation. An implementation plan is under preparation with the support of external experts.

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 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 31, 2019 and reproduced below in Table 1.

Table 1. Liberia: Program Exchange Rates

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. Revenues retained by government agencies to fund their operations and not appropriated in the budget shall not be considered revenue for program purposes. 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. 16919-(20/103), adopted October 28, 2020, 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, 2021, and June 30, 2022 with respect to:

- Primary fiscal balance excluding grants (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 Excluding Grants

9. A floor applies to the cumulative flow of the primary fiscal balance excluding grants since the beginning of the fiscal year, which runs from July to December 2021 for the special budget, and January to December thereafter. 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 purchase order is issued. 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 budget support grants and off-budget transactions related to donor support.

10. Adjustor: If the sum of cumulative budget support grants and concessional budget support loans received up to the relevant quarter in the budget for July-December 2021 and for the calendar year 2022 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. If part of expenditure were for capital injection that are consistent with the financial sector reform plan adopted by the CBL Board in consultation with Fund staff, the floor for the primary fiscal balance excluding grants in that quarter will be adjusted downward by that amount. The 2022 floors shall be adjusted up by the sum of shortfalls in investment spending and shortfalls in spending on COVID-19 vaccines and their administration. This adjustor shall not be negative and is capped at US$45 million. Shortfalls are relative to reference values shown as in Table 2.

Table 2. Liberia: Adjustor to the Primary Balance Excluding Grants, 2020Q4-2022Q4
(Millions of U.S. dollars, Cumulative)

	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Budget support	72	0.0	46.0	46.0	0.0	0.0	40	40	65
Investment Spending						35.0	46.0	64.0	98.0
COVID-19 vaccine and administration						0.0	7.5	10.0	10.0

New Arrears on Public External Debt

11. 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

12. 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.

13. 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.

14. 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

15. 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 accrual based operating expenses and cash based 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 monthly period-average exchange rate.

16. Adjustor: The ceiling shall be adjusted up by the transfers from the GOL to the CBL to help finance the currency changeover operation. The 2022 targets will also be adjusted up by any underspending in 2021.

CBL's Net International Reserves

17. *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).

18. *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) unfit foreign currency bank notes in vault and in transit; and (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; and (d) assets ring-fenced in accordance with guarantees.

19. *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.

20. 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).

21. Adjustor to the QPC on the floor on the change in NIR. The QPC floor on the change in NIR shall be adjusted down by the difference between the value of unfit U.S. dollar banknotes shipped to the Federal Reserve and the value credited to the CBL's account. The QPC on NIR shall be adjusted up (down) by the amount of the debt relief provided under the CCRT above (below) the projections specified in table 3, converted to U.S. dollar at the program exchange rate. The 2022 floors shall be adjusted down by the amount of foreign currency on-lending by the CBL to the GOL of the SDR allocation. This adjustor shall be capped at US$80 million.

Table 3. Liberia: Adjustor to the Floor on NIR, Dec. 2020 – December 2022
(Millions of U.S. dollars)

	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
CCRT*	31.5	0.0	15.8	15.8	20.1	11.0	11.0	11.0	11.0
Deposits of unfit US$ banknotes by banks*		1.8	3.0	3.9	5.1	1.3	2.1	2.9	3.7

*Cumulative from beginning of year.

22. Recognition of GOL deposits on test dates. GOL deposits credited to the CBL's accounts before or on the test date but whose liability is recognized by the CBL after the test date shall, for program purposes, be recognized as GOL deposit occurring on the test date.

CBL's Gross Direct Credit to Government

23. A ceiling applies on the CBL's gross direct credit to the Central Government (as defined in paragraph 3). The CBL's 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.

24. Adjustment to the QPC on the ceiling on the CBL's gross direct credit to government. The 2022 ceilings shall be adjusted up by the amount of the SDR allocation on-lent by the CBL to the GOL. The adjustor shall be capped at US$80 million.

Indicative Targets

25. The program sets indicative targets for December 31, 2021, and June 30, 2022 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

26. 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) excluding budget support loans and grants.

New Domestic Arrears/Payables of the Budgetary Central Government

27. A ceiling applies on new domestic arrears of two types of government expenditure. The precise point at which a government liability falls into arrears typically varies according to the type of expenditure. For the purposes of this indicative target, the following two types of government expenditure will be considered to be in arrears under the circumstances set forth below:

- *Payment to commercial contractors for provision of goods and services or fixed assets*: expenditure is considered to be in arrears when "cash expenditure" is lower than "IFMIS expenditure" in expenditure code 22 (goods and services), code 23 (consumption of fixed capital) and code 31 (capital expenditures) reported in the final reconciled ECF report of the corresponding fiscal year. A processing period cannot be more than 90 days from the end of the fiscal year.
- *Payment of interest or principal on government debt*: expenditure falls into arrears as soon as the scheduled date for payment has passed (subject to any applicable grace period).

Social and Other Priority Spending

28. Social spending is defined as education, health, and social development services. Education, health, and social spending consist of the cumulative payments from July to December 2021 for the special budget, and January to December thereafter 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 and workforce of teachers by subsector (early childhood, primary, junior high, and senior higher).
	Spending on home-grown school feeding program.
Health	Total wage bill and workforce 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 Investment Spending

29. On-budget investment spending is defined as gross investment in nonfinancial assets as stated in the budgetary central government statement of operations table. Investment spending is defined as set out in the Government Finance Statistics Manual 2014 under transactions in nonfinancial assets which is broadly in line with what the GOL includes in its public sector investment program excluding transfers to the Road Fund and election related spending. It also excludes off-budget projects related to donor projects. The indicative target is based on the annual gross investment. For end-December 2021, it shall be assessed based on gross investment over the special budget for July-December 2021. For June 2022, the target shall be assessed using cumulative spending from January to June.

Net Domestic Assets of the CBL

30. 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* (defined in paragraph 16) and *other foreign assets*. 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 are not limited to the use of Fund credit and loans. Other foreign liabilities include but are not limited to other foreign currency loans to nonresidents and SDR allocation.

31. Adjustment to the indicative target on the ceiling on the net domestic assets of the CBL. The 2022 ceilings shall be adjusted up by the amount of the SDR allocation on-lent by the CBL to the GOL. The adjustor shall be capped at US$80 million.

D. Data Reporting

32. 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 4-6, below, to the staff of the IMF.

33. 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.

34. 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.

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

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, 3, and 4] 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
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

Table 4. Data Reporting Requirements for Program Monitoring (continued)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
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
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 of interest and principle on external debt by loan instrument, category and creditors and the stock of external debt.	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	Detailed report of debt service due date and actual payment date throughout the corresponding fiscal year by loan instrument and creditor.	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 and budget weekly outturn relative to forecast following the template provided below (Table 5)	Weekly	Within five days after the end of the week
CBL	CBL commitment-based budget monthly outturn relative to forecast following the template provided below (Table 6)	Monthly	Within three weeks after the end of the month
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
Foreign Exchange and Reserve Assets			
CBL	Daily reporting of net international reserves and components: gross foreign assets (vault cash, balances with overseas correspondent banks), ODCs' current account in foreign currency, the Government's FX deposits, mutes in vault and transit, operational tellers accounts,	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**
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
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

Table 4. Data Reporting Requirements for Program Monitoring (concluded)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
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

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

	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					

Table 6. Reporting Requirements for the CBL's Cash Budget (Template)

	Month 1			Month 2			…
	Budget	Committed	Actual	Budget	Committed	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							

Statement by Ms. Ita Mannathoko, Executive Director for Liberia, and Mr. Bernard Wleh Jappah, Senior Advisor to the Executive Director

November 24, 2021

Introduction

1. Our Liberian authorities thank staff for the constructive engagement during the third Review of the Extended Credit Fund (ECF) arrangement and share staff's assessment of policy challenges and the economic outlook.

2. After two years of recession, the Liberian economy is exhibiting encouraging signs of a modest recovery with mining production resuming after the COVID-19 pandemic depressed economic activity in 2020. In the wake of the pandemic, the authorities' decisive interventions have helped to contain infections and mitigate the socio-economic fallout. The diversion of efforts and resources towards bolstering the fight against the pandemic, however, undermined reform progress. Nevertheless, the authorities have renewed their reform effort under the Extended Credit Facility to help realize the key objectives of the Pro-Poor Agenda for Prosperity and Development (PAPD, 2018-2023). Importantly, they have persevered with the implementation of difficult but prudent fiscal and monetary policies to help restore macroeconomic stability and are currently reframing their structural reforms to support sustainable and inclusive growth. The authorities continue to keep the ECF program firmly on track despite very difficult circumstances and seek Directors' support for completion of the third review of the ECF program and associated waivers.

Recent Economic Developments and Outlook

3. Real GDP growth is expected to rebound from a -3.0 percent in 2020 to 3.6 percent in 2021. The expansion in economic activity in 2021 is spurred by improved iron ore and gold production on the back of favorable international commodity prices. Further growth impetus has been provided by increased activity in construction and hospitality sectors. Going forward, growth is projected at 4.7 percent in 2022 underpinned by further improvements in mining activity and increased public investments. That said, the outlook remains clouded by significant risks from the uncertain path of the pandemic locally and in key trading partners alongside inadequate access to affordable vaccines, and slow rollout of vaccination. The authorities are ramping up efforts to acquire more vaccines and scale up vaccination to meet the goal of vaccinating 70 percent of the eligible population by 2023. They continue to pursue reforms to entrench macroeconomic stability and attain stronger growth returns.

4. Inflation has declined sharply to 7 percent in August 2021, from 20 percent in early 2020 under a tight monetary policy and supportive exchange rate. In the medium term, inflation is expected to decline further, notwithstanding transitory pressures from the introduction of a new family of banknotes by end 2021 that would likely lead to a moderate rise in inflation as the cash crunch is alleviated. International reserves strengthened from 2.6 months to 4.7 months of import cover, supported by increased external financial support and the general allocation of SDRs.

Program Performance

5. The pandemic hit Liberia several months after this end-2019 ECF program was approved, and at a time when the Liberian economy was already in recession. Thus, the original adjustment measures and targets in the program were not designed with the flexibility needed to navigate the pandemic. The authorities had to contend with extremely difficult policy tradeoffs, as the economy contracted in 2020 for the second year in a row, and widespread poverty and food insecurity rose while GDP per capita dropped from US$620 in 2018 to US$554 and then US$527 in 2019 and 2020 respectively. The authorities undertook significant pro-cyclical fiscal consolidation under the program in 2020, which entrenched scarring. At the same time, though tight monetary policy supported a sharp drop in inflation it also deprived the private sector of much needed support. A more accommodative fiscal stance was taken at the last program review at the end of 2020, though still with limits on spending, to help weather the fallout from the pandemic. Nevertheless, in 2021 with scarring still entrenched, the policy and reform context has remained extremely difficult for authorities who still face multiple competing demands, alongside the risk of high unemployment and poverty among the youth generating unrest and instability, as has happened before in the past. This difficult balancing act amidst an ongoing pandemic fueled by low vaccination, has been time consuming and has hampered the ability of authorities to meet some program targets.

6. Despite the foregoing, the authorities met four (4) out of the six (6) performance criteria (PCs). For the two missed PCs, corrective measures have been taken relating to the target on *Central Bank of Liberia's net international reserves* which was impacted by delays in the resolution of a troubled bank. Actions taken by the authorities to speed up resolution include implementation of a restructuring plan for the troubled bank, significant progress in the recruitment process to replace two top executives of the troubled bank, and completion of the recruitment of a new CEO by end December 2021. There is also progress on currency printing with the currency changeover process having already commenced. Corrective measures have also been taken for the target on *external payment arrears* which was missed marginally, due to a clerical error. The arrears have since been cleared and the authorities are

strengthening work processes to avoid a recurrence. To that effect, payments instructions will be issued well in advance of due dates to ensure prompt settlements.

7. Three (3) out of five (5) indicative targets were met. Fiscal revenue outperformed program targets, social spending was also strong, and net domestic assets remained confined due to cash shortages. For the missed targets, prioritization of pandemic-related expenditures restrained capital outlay below target, while late service of domestic debt led to incurrence of arrears.

8. Implementation of all ten structural benchmarks (SBs) was adversely affected by domestic capacity constraints amidst intensified pandemic efforts. Notwithstanding this, the authorities met six (6) out of the ten (10) SBs, albeit with delays for four (4) SBs. The four outstanding SBs were reset due to institutional capacity challenges which are currently being addressed with technical assistance from the Fund and development partners. Among other things, the authorities are strengthening public financial management safeguards, including making it mandatory for contractual claims to be supported by IFMIS-generated purchase orders, as well as closing ministries, agencies, and commission (MAC) accounts with commercial banks and transferring their balances into the Treasury Single Account (TSA) at the Central Bank of Liberia (CBL).

Fiscal Policy and Debt Sustainability

9. Fiscal policy remains focused on fostering fiscal and debt sustainability, through enhanced revenue collection and expenditure containment efforts. As a result, the FY2021 primary fiscal deficit (excluding grants) outperformed the program target by close to 1 percent of GDP. The strong revenue performance was supported by the introduction of an excise tax on fuel, changes to the application of personal income tax, and dividends from revenue administration reforms. On the expenditure front, the authorities are keeping expenditures within the budget envelope. Fiscal space created by strong revenue performance allowed for some priority expenditures including those related to COVID-19 and the recruitment of civil service personnel to fill the labor shortage in the education, health, and judiciary sectors. The overall wage bill was kept stable by discontinuation of wage payments to employees without biometric identification cards since end April 2021. Any savings from fiscal or related effort will be directed towards planned increases in infrastructure development.

10. Additional measures are also in train to bring public finances onto a sustainable trajectory. These include steps to (i) replace the general sales tax (GST) with a value-added tax (VAT) by 2025, (ii) institutionalize tax expenditure reports beginning budget year 2023, (iii) intensify collection of tax arrears, (iv) streamline tax exemptions, and (v) increase

dividends from state-owned enterprises (SOEs). The authorities plan to implement (i) through (iii) in the coming fiscal year.

11. On expenditure, the 2021 special budget provides for allocation to public investment while also contributing to currency reform. The FY 2022 budget will also accommodate currency reform, acquisition of vaccines, and augmented public investment, with support from on-lent SDRs. Keeping public debt on a sustainable path remains a priority, including by addressing legacy issues. As such, the authorities are committed to paying down legacy bills in line with their arrears-payment strategy and will continue to refrain from new borrowing from the central bank and from borrowing on non-concessional terms.

Monetary and Financial Sector Policies

12. During the pandemic last year, the CBL maintained a tight monetary policy stance to help contain inflation. More recently, lower inflationary pressures allowed the CBL to cut its policy rate from 25 to 20 percent to improve liquidity conditions and support recovery. Monetary policy, therefore, remains guided by developments. On currency, the authorities have adopted a High-Level Currency Implementation Plan to roll-over a new family of banknotes between November 2021 and 2024, in order to end disruptive currency shortages and ensure the adequate supply of Liberian dollar banknotes especially during peak periods, while fostering the de-dollarization process and maintaining financial stability. Under this plan, the authorities, working with international partners including the Fund, have initiated the procurement of the new banknotes to replace both legacy and mutilated banknotes. The currency changeover will be phased to avoid overwhelming the CBL's operational capacity. The authorities will also carefully monitor and counter any risks that may disrupt the process.

13. The CBL is implementing the recommendations of the 2020 Safeguards Assessment, as part of efforts to strengthen its internal controls and governance practices. The central bank is also reinforcing the internal processes and reporting arrangements to ensure timely reporting and auditing of transactions including on foreign exchange reserves. A compliance unit has been approved by the CBL's Board and will be fully operational by Q1 2022.

14. Recognizing the need for strong financial sector oversight, the CBL is instituting several measures. With support from the IMF, amendments to the Financial Institutions Act (FIA), aimed at strengthening the regulatory environment have been completed. The amendments will be submitted to the National Legislature by its return to session at end February 2022. A comprehensive resolution regime, including operational guidelines and a set of revised risk-based supervision guidelines will be rolled out by end April 2022, following the passage of the amended FIA. In addition, a dedicated unit will be established to manage the resolution

strategies for financial institutions. Meanwhile, institutions falling short of regulatory requirements will remain under enhanced supervision.

15. The authorities remain concerned at the high rate of non-performing loans. To this end, the CBL is engaging local banks to aggressively pursue loan recovery in compliance with existing regulations. Further, the central bank has completed the review of banks' resolution strategies and recommended revisions to strengthen them. It has also carried out training on underwriting standards while continuing to scrutinize bank's NPL resolution strategies under the aegis of senior management.

Governance and Structural Reforms

16. The authorities have taken concrete steps to strengthen governance and anti-corruption frameworks. The House of Representative approved the amendments to the anti-corruption Act and the Code of Conduct. The amended anti-corruption Act will give the Liberia Anti-Corruption Commission (LACC) first tier prosecutorial powers and puts the institution in charge of managing the asset declaration regime of senior public officials. In addition, the Lower House approved the Whistleblower and Witness Protection Act. These key pieces of legislations are expected to be passed by the Liberian Senate later in 2021. In parallel, the government convened a major judicial forum, which included members of the business community and other pertinent state actors, as part of work to develop a robust national business and investment climate strategy. A new law to strengthen the Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) regime has also been submitted to the Legislature for passage by end-2021. On accountability and public resources, a special audit has been commissioned for COVID- related expenditures, and the findings will be made public after completion in December 2021.

Conclusion

17. The authorities remain committed to implementing sound macroeconomic policies as articulated in the Memorandum of Economic and Financial Policies, which they believe are broadly aligned with the objectives of the Extended Credit Facility (ECF) arrangement. They continue to value the Fund's technical and policy support. The authorities look forward to Executive Directors' support in the completion of the third ECF review, as well as on advocacy for access to vaccines, to help strengthen Liberia's economic development prospects.