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Liberia: Letter of Intent and Technical Memorandum of Understanding

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The following item is a Letter of Intent of the government of Liberia, which describes the policies that Liberia intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Liberia, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Letter of Intent

Monrovia, September 17, 2014

Madame Christine Lagarde

Managing Director

International Monetary Fund

Washington, D.C.

Dear Madame Lagarde,

1. This letter requests an immediate augmentation of access under our ECF arrangement of SDR 32.3 million (25 percent of quota) and the approval of a disbursement of SDR 32.3 million to help us address the negative impact of the Ebola epidemic on Liberia's external position and support our efforts in containing the outbreak. In order to allow for the additional Fund disbursement to be on-lent in full to the government, we also request that the following end-December performance criteria be modified, via an adjustor: (i) floor on CBL's net foreign exchange position, (ii) ceiling on CBL's gross direct credit to the central government (both performance criteria), and (iii) indicative target on net domestic assets of the CBL (see attached proposed amendment to the Technical Memorandum of Understanding and Table 1).

2. The Ebola epidemic is exacting a heavy toll on Liberia. The second wave of the epidemic that started in June has spread very rapidly, both in terms of numbers of new cases and geographic areas affected.¹ Our fragile health system lacks the capacity to deal with an epidemic of that intensity, and has been further weakened by the numerous deaths of our health workers.

3. In addition to being a human tragedy, the Ebola epidemic also threatens our hard-won gains in terms of economic and social progress since the end of the civil war a decade ago. Prior to the outbreak, Liberia had been growing at about 8 percent on average since 2011, institutions had been re-built, and social indicators were gradually improving.

4. The economic and social impact of the outbreak is expected to be significant and to linger into 2015. Preliminary estimates indicate that real GDP growth in 2014 could decline from 5.9 to 2.5 percent, and from 6.8 to 4.5 percent in 2015 as the largest sectors of our economy are affected,

¹ The first wave of the outbreak started in March 2014 and ended in May 2014.

namely agriculture, services and mining. Domestic production and exports are being hit by the border closures, internal quarantines and cancellations of international flights. The departure of expatriate workers is significantly affecting production in the foreign concessions sector. In turn, this is likely to generate significant fiscal and external financing gaps. Disruptions to trade and food production will also push up inflation. The poor will be disproportionately affected, both due to higher prices and the loss of income for informal workers in agriculture and services.

5. We do hope that the governments' vigorous efforts, supported by the international community, will succeed in containing the epidemic in the coming months. In response to the Ebola outbreak, President Ellen Johnson-Sirleaf has declared a state of emergency and strict internal quarantines of affected areas. The government has established an Ebola Trust Fund, managed by a special committee set up by the government, and already contributed an amount of US\$5 million out of a total US\$20 million in additional spending needs directly related to containing the epidemic. In addition, we foresee that containing the epidemic will require additional outlays for expenditures related to security, health, communication strategy and emergency food distributions. Only a portion of these additional expenditures could be covered by budget reallocations. At the same time, the decline in economic activity and trade is projected to generate a substantial revenue loss for the rest of the fiscal year, so that, overall, the fiscal deficit could increase by close to US\$100 million or about 4½ percentage points of GDP.

6. The CBL has stepped up its intervention in the foreign exchange auction to help contain depreciation pressures and anchor inflation, by offering an additional amount of US\$6.9 million in July. We also plan to issue additional CBL bills to manage Liberian dollar liquidity. The reduction in domestic activity may negatively impact the quality of banks' portfolios, and we will closely monitor the banking system to ensure the health and stability of the system, taking into account the necessary prudential measures.

7. The requested additional access under the current ECF arrangement will help us address the immediate balance-of-payment need associated with the epidemic. Lower export receipts and higher imports of food and basic commodities to address domestic shortages would generate an external financing gap of around US\$93 million. So far, pledges of additional international support would help cover only a portion of the external and fiscal financing gaps, but we are confident that the Fund's disbursement will provide a strong signal that will help catalyze support from other donors, so that forthcoming assistance would help cover remaining financing gaps. The government will reallocate resources within the budget from non-priority funding to finance its efforts to contain the epidemic until further donor support materializes, and to meet any unfilled residual financing gap, in consultation with Fund staff. Given the budget support element of the augmentation, a

Memorandum of Understanding will be signed between the Ministry of Finance and Development Planning and the Central Bank of Liberia on our respective roles and responsibilities for servicing financial obligations to the Fund.

8. Going forward, the government remains committed to the design and implementation of measures and policies to address the current crisis and support the subsequent recovery in a manner that maintains macroeconomic stability and financial sustainability, in line with the broad objectives of the program. At the moment, the government is working on an economic recovery and revitalization plan, recognizing that a post-Ebola economy will require changing the structure and fundamentals of the economy to deal with shocks, given that the current crisis has exposed the weaknesses of the existing economic structures. Key areas of investment under consideration for the post-Ebola economic program will include infrastructure; the Liberian private sector; food and small tree crop production; and our people, by rebuilding the health care delivery system, educational system, and ensuring a better social safety net regime which explicitly targets individuals or groups of individuals, i.e., poor households, women, children or the elderly who are often considered to be the most vulnerable especially in areas affected by Ebola. In developing these measures and policies, we will continue to work in close consultation with IMF staff.

9. The government believes that the policies described in the MEFP of June 17, 2014 and this Letter of Intent are adequate to achieve the program's objectives. However, if necessary, the government stands ready to take any additional measures that may be required. The government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP of June 17, 2014, in accordance with Fund's policies on such consultations.

10. In line with our commitment to transparency in government operations, we agree to the publication of all ECF-related documents circulated to the IMF Executive Board.

Sincerely yours,

_____/s/_____
Amara Konneh

Acting Minister of Finance and Development Planning
Ministry of Finance and Development Planning

_____/s/_____
Joseph Mills Jones

Executive Governor
Central Bank of Liberia

Attachment 1. Amendment to the Technical Memorandum of Understanding

To account for the impact of the disbursement of the ad-hoc ECF augmentation on end-December program targets, an addendum to paragraph 17 (External Financing Adjustor) of the June 2014 TMU will read as follows:

17bis. Adjustor for ad-hoc augmentation of access under the ECF. The program ceilings for CBL gross credit to government and CBL net domestic assets will be adjusted upward and the program floor on the net foreign exchange position of the CBL will be adjusted downward, by the amount of the Fund disbursement under the ad hoc augmentation of access under the ECF. The adjustor will apply to the end-December 2014 program targets.

Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, FY2013–14
(Millions of U.S. dollars, unless otherwise indicated)

	Dec. 13		Status	Mar. 14		June 14			Status	Sep. 14		Dec. 14	
	Program	Actual		Program	Actual	Program	Adjusted ¹¹	Prel.		Program	Program	Adjusted ¹²	
Performance criteria^{1, 2}													
Floor on total revenue collection of the central government ³	230.3	214.5	Not met	347.8	335.6	492.1	492.1	470.5	Not met	125.0	245.0	245.0	
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	
Ceiling on new non-concessional external debt of the public sector (continuous basis) ⁴	14.2	0.0	Met	14.2	0.0	14.2	14.2	14.2	Met	14.2	14.2	14.2	
Ceiling on new domestic borrowing of the central government ⁵	30.0	14.0	Met	35.0	13.0	35.0	35.0	13.0	Met	40.0	45.0	45.0	
Floor on CBL's net foreign exchange position ^{6, 7}	217.0	237.3	Met	221.0	230.2	245.0	229.8	236.0	Met	249.0	253.0	201.8	
Ceiling on CBL's gross direct credit to central government ⁷	284.9	264.4	Met	284.9	266.7	260.9	276.1	267.5	Met	260.4	260.4	308.8	
Indicative Targets													
Ceiling on gross external borrowing by the public sector ⁸	118.2	150.9	Not met	118.2	160.9	265.0	265.0	184.9	Met	153.2	153.2	153.2	
Ceiling on net domestic assets of the CBL ^{6, 7}	3.0	-23.7	Met	3.0	-22.8	-25.0	-9.8	4.5	Not met	-25.0	-25.0	26.2	
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	
Floor on social and other priority spending (percent of total actual expenditure, excluding contingencies) ⁹	30.0	35.9	Met	30.0	27.3	30.0	30.0	28.7	Not met	30.0	30.0	30.0	
Memorandum items:													
Total spending on education, health, social development services (percent of total actual expenditure, excluding contingencies)	25.0	22.9	...	25.0	17.9	25.0	25.0	25.0	25.0	25.0	
Programmed receipt of external budget support grants and committed external loans ^{2, 10}	53.3	31.1	...	55.9	31.1	61.6	61.6	46.4	...	2.5	18.0	18.0	

Sources: Liberian authorities and IMF staff estimates and projections.

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

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

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

⁴ The modification of this PC was requested to include US \$14.2 million loan which was signed between the authorities and the Kuwaiti Development Fund for the rehabilitation of Port Greenville. At the time of the First Review the loan did not come into effect. The grant element of the loan is 34 percent (1 percent below the concessionality threshold).

⁵ Includes issuance of treasury bills, domestic loans, advances, and any government debt instrument such as long-term securities issued in the domestic market.

⁶ Includes SDR holdings net of ECF liabilities. SDR holdings converted at program exchange rate of 1 SDR=1.5844 US dollar.

⁷ The program ceilings for CBL gross credit to government and CBL net domestic assets will be adjusted upward and the program floor on the net foreign exchange position of the CBL will be adjusted downward, by the amount of the difference between actual and programmed external budget support grants and committed budgeted external loan disbursements up to a maximum of US\$20 million.

⁸ This nominal target is set based on a three-year average annual ceiling in NPV terms.

⁹ Includes spending on education, health care, social development services, and energy.

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

¹¹ The actual targets based on the automatic adjusters.

¹² The end-December 2014 program ceilings for CBL gross credit to government and CBL net domestic assets will be adjusted upward and the program floor on the net foreign exchange position of the CBL will be adjusted downward, by the full amount of the ECF augmentation of 25 percent of quota at the prevailing market SDR rate and the program SDR rate, respectively.