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FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND REPHASING AND EXTENSION OF THE ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBERIA

In the context of the fourth review under the extended credit facility arrangement and requests for waivers of nonobservance of performance criteria, modification of performance criteria, and rephasing and extension of the arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 21, 2015, following discussions that ended on October 30, 2015, 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 December 7, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Liberia.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Liberia*
Memorandum of Economic and Financial Policies by the authorities of Liberia*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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December 21, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review under the Extended Credit Facility Arrangement for Liberia and Approves US$10.2 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review under an Extended Credit Facility (ECF)[1] arrangement for Liberia. The completion of the review enables the disbursement of SDR 7.38 million (about US$10.2 million), bringing total disbursement under the arrangement to SDR 69.21 million (about US$95.8 million).

In completing the review, the Board approved waivers for the nonobservance of the performance criteria on government revenues and central bank net foreign exchange position. The Board also approved the re-phasing and extension of the arrangement to end-2016 in light of the delays caused by the Ebola outbreak.

The ECF arrangement for Liberia was approved by the IMF's Executive Board on November 19, 2012 (see Press Release No 12/449) for SDR 51.68 million (about US$71.6 million) and was extended on October 14, 2015 to allow for the completion of the fourth review.
In the wake of the Ebola outbreak, the IMF also supported Liberia with an ad hoc disbursement of SDR 32.3 million (about US$44.7 million in augmentation of access under the current ECF Arrangement (see Press Release No 14/441). The Board also approved an SDR 32.3 million (about US$44.7 million) disbursement under the Rapid Credit Facility (RCF)[2] as well as debt relief under the Catastrophe Containment and Relief (CCR) Trust (see Press Release No15/69). The total financing of SDR 90.44 million (about US$125.2 million helped the country meet urgent balance of payments and fiscal needs resulting from the epidemic.

[1] The ECF has replaced the Poverty Reduction and Growth Facility as the Fund's main tool for medium-term financial support to low-income countries. Financing under the ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years. The Fund reviews the level of interest rates for all concessional facilities every two years.

[2] The RCF provides rapid financial support in a single, up-front payout for low-income countries facing urgent financing needs. Financial assistance under the RCF is provided as an outright disbursement to Poverty Reduction and Growth Trust (PRGT)-eligible members that face an urgent balance of payments need, and where a full-fledged economic program is either not necessary or not feasible

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

"Liberia has largely overcome the Ebola epidemic, thanks to decisive policy actions, unprecedented international support, and strong community engagement. However, the sharp decline in global commodity prices is holding back the economic recovery.

"Performance under the authorities' Fund-supported program has been uneven as a result of the epidemic and, to a lesser extent, policy slippages. A still challenging economic situation underscores the importance of strong program implementation in the period ahead to sustain macroeconomic stability, improve policy credibility, and secure additional donors financing.

"Fiscal policy next year will remain accommodative to support the recovery. Reallocation of resources toward the health and education sectors is appropriate. In light of limited fiscal space, caution is needed in considering tax relief for companies in the commodity sector. The authorities should also press ahead with addressing public financial management weaknesses and further strengthen revenue administration.

"Borrowing polices should remain prudent in the context of lower growth prospects. Financing needs, particularly for large investment projects, should be covered mostly with grants and concessional loans. This approach would facilitate needed capital projects while preserving debt sustainability.

"Rebuilding external buffers in Liberia's dual currency regime requires containing the central bank's operational expenses and limiting foreign exchange intervention only to smoothing volatility. More effective liquidity management and further development of monetary policy instruments will help safeguard price stability. Strengthening the prudential oversight of the banking system and the framework for crisis management remains critical to tackle threats to financial stability."

INTERNATIONAL MONETARY FUND

LIBERIA

December 7, 2015

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND REPHASING AND EXTENSION OF THE ARRANGEMENT

EXECUTIVE SUMMARY

Context. Liberia is moving on from the Ebola epidemic. The WHO declared Liberia Ebola-free for the second time in September 2015, even though there have recently been a few new cases. The recovery is weak, as the economy suffers from the fall in commodity prices.

Key risks. Weaker commodity prices would depress production and investment prospects. Security risks could increase as the UNMIL withdraws in the run up to the 2017 presidential and legislative elections. The Ebola virus disease could re-emerge on a large scale.

Policy recommendations.

- Strengthen budget credibility and address bottlenecks in public investment implementation to maximize quality and efficiency of public spending.
- Build international reserve buffers while allowing greater exchange rate flexibility, and enhance liquidity management to contain inflation.
- Continue to prioritize grant and highly concessional external financing to preserve debt sustainability, as the risk of debt distress has moved from low to moderate.

Program performance. The end-June 2014 quantitative performance criteria on government revenues and central bank net foreign exchange position, and one indicative target on net domestic assets were not met. Only three out of seven structural benchmarks for the fourth review were met. Based on the authorities' corrective actions, staff supports completion of the delayed fourth ECF review, and the authorities' request for an extension and re-phasing of the program to end-December 2016.

Program status. The third ECF review was completed on July 3, 2014. The IMF Executive Board approved an ad-hoc ECF augmentation on September 26, 2014 (25 percent of quota), and an RCF disbursement (25 percent of quota) and debt relief (20 percent of quota) under the Catastrophe Containment and Relief Trust on February 23, 2015 to help the country meet the balance of payments and fiscal needs caused by the Ebola outbreak. The Board approved on October 14 the authorities' request for a technical extension of the ECF arrangement to allow for the completion of the fourth review delayed by Ebola.

Approved By
Abebe Aemro Selassie and Chris Lane

Discussions were held in Monrovia (April 27-May 9 and October 19–30, 2015). The missions comprised Ms. Deléchat (head, April-May mission) and Mr. Sdralevich (head, October mission), Messrs. Chawani and Oshima (AFR), and Ms. Xu (SPR). Mr. Amo-Yartey, resident representative, and Mr. Deline, local economist, assisted the mission. Mr. Tharcisse Yamuremye (OED) attended the policy meetings in the May mission. Graham Errol George (World Bank) participated in several mission meetings. The missions met with President Johnson Sirleaf; Minister of Finance and Development Planning Konneh; Central Bank Governor Mills Jones; other senior officials; representatives of the private sector; and development partners.

CONTENTS

TABLES

APPENDIX

POST-EBOLA CHALLENGES

1. **Liberia is moving on from the Ebola epidemic**. The country was declared Ebola-free by the World Health Organization (WHO) on September 3, 2015, even though there have been a few new cases in the Monrovia suburbs.[1] Since the outbreak began in March 2014 in neighboring Guinea, Liberia experienced 10,675 cases and 4,809 deaths. Strong government leadership, a large international effort and extensive community engagement contributed to the near-eradication of the disease. To fully and permanently eliminate it, prevention and response strategies at the country level and close cross-border coordination with Guinea and Sierra Leone will be needed. Significant resources will also have to be channeled towards strengthening the health and social protection systems, consistent with the authorities' Economic Stabilization and Recovery Plan (ESRP) which is designed to guide the economy back to the path set by the long-term Agenda for Transformation.

Box 1. Economic Stabilization and Recovery Plan

The ESRP focuses on three pillars: recovering output and growth, strengthening resilience and reducing vulnerability, and strengthening public finances and ensuring service delivery. It also targets priority interventions for agriculture, basic infrastructure, health, education, social protection, revenue mobilization and public financial management (PFM). The total cost of the ESRP is estimated at about $1.3 billion over three years.

Recovering output and growth (estimated cost: US$305 million)

The ESRP identifies sector-specific policies to revitalize growth to pre-crisis levels with more inclusiveness and job creation. 21 percent of total ESRP costs are allocated toward enhancing access to finance for farmers and restarting key infrastructure projects. This pillar also covers economic diversification and private sector development.

Estimated Cost of ESRP
(Millions of U.S. dollars)

	FY2015	FY2016	FY2017	Total
Total	137	669	452	1257
Recovering output and growth	66	198	41	305
Strengthening resilience and reducing vulnerability	71	328	265	664
Strengtheining public finances and snsuring service delivery	-	143	146	289

Source: Liberian authorities.

Strengthening resilience and reducing vulnerability (estimated cost: US$664 million)

The ESRP seeks to improve health; education; water, sanitation, and hygiene (WASH); cash transfers; and security. Health sector investments account for about 35 percent of the ESRP costs, focusing on infrastructure and capacity building. Education policies mainly aim at improving education and training quality. Cash transfers to Ebola virus disease (EVD)-affected households will be established. Finally, the plan calls for US$94 million in priority investment in the security sector ahead of UNMIL's departure in June 2016.

Strengthening public finances and ensuring service delivery (estimated cost: US$289 million)

Under this pillar, the government will continue its efforts to improve revenue administration, enhance PFM, especially transparency and accountability, and prioritize public expenditures. Furthermore, the government will aim at decentralizing and improving the quality of public services.

[1] The WHO issued its first Ebola-Free Declaration on May 9, 2015. In June 2015, however, a few isolated cases were confirmed. The WHO declared Liberia Ebola-Free again on September 3, 2015.

2. **Poverty and food insecurity remain higher than before the crisis**. Survey evidence compiled by the World Bank in March 2015 suggests 40 percent of heads of households who were working at the onset of the Ebola crisis are still out of work (48 percent at the height of the crisis). However, food insecurity has dropped in the rural areas thanks to a strong harvest.

3. **On the heels of the outbreak, the commodity price shock is further dampening the economic outlook**. After near-stagnation during the epidemic, the economy looks set to experience a U-shaped recovery, with lower growth, exports and revenue paths. The two shocks are also exposing the economy's limited productive base and heavy dependency on large foreign concessions.

4. **The political and security situation is stable**. The political system is preparing for the 2016 constitutional referendum, but is also already gearing up to the 2017 general elections, which will choose the new head of state as President Johnson Sirleaf cannot be elected for a third term. The UNMIL contingent's drawdown will be completed in September 2016 and leave only a small peacekeeping force on the ground.

5. **The ECF program was delayed by the Ebola epidemic**. After the approval of the ad-hoc review and augmentation of the ECF in September 2014, the authorities continued to consult closely with staff on policies. However, they were not able to make progress on the program, as capacity was severely impacted by the focus on fighting the outbreak. The Fund continued to support Liberia financially with a disbursement under the Rapid Credit Facility and debt relief under the Catastrophe Containment and Relief in February 2015.

A TIMID RECOVERY

6. **Economic recovery is taking hold, but only gradually**. Real GDP growth is estimated to have expanded by only 0.7 percent in 2014 as all economic sectors were affected by the epidemic. In 2015, GDP growth is projected at 0.3 percent as production and investment are being cut in the commodity exporting sectors, particularly iron ore and rubber, even though services are expected to remain resilient (Figure 1).

7. **Inflation has declined, while exchange rate pressures appear to have abated**. Inflation eased to 6.5 percent (y/y) in September 2015 from a peak of 13.5 percent in September 2014, when the Ebola epidemic had limited the supply of agricultural products. Both food and non-food inflation has been moderating, largely on account of lower international rice and oil prices. The Liberian dollar depreciated by 6.8 percent in the first ten months of 2015, a relatively small amount compared to regional peers partly due to the CBL's interventions in the foreign exchange market.

8. **The current account deficit widened**. The current account deficit worsened from about 28 percent of GDP in 2013 to about 31 percent in 2014 mainly because of the sharp decline in exports caused by the Ebola and commodity price shocks, which were only partially offset by higher Ebola-related current transfers. The deficit is projected to rise to 39 percent of GDP in 2015 as

commodity exports continue to decline. Gross international reserves have declined from $411 million at end-2014 to US$394 million in September 2015 (about 2.4 months of essential imports or 2.1 months of total imports).

9. **Financial sector activity has yet to recover from the crisis**. After a period of contraction, credit to the private sector rose by 7.6 percent in real terms in September 2015 (y/y) but nonperforming loans (NPLs) rose from the pre-Ebola 14.5 percent of total loans in March 2014 to 19.3 percent in July 2015.

10. **Program performance remains mixed**:

- **End-June 2014 performance criteria (PCs) and indicative targets (ITs)** (relevant for the fourth review) were met, except the revenue floor (PC), the floor on net foreign exchange position of the CBL (PC), and the ceiling on net domestic assets (NDA) (IT). The revenue floor was missed by US$22 million, owing to shortfalls in tax and non-tax collection. The CBL missed the net foreign exchange position target as it incorrectly counted the March 2014 placement of €47 million with a domestic commercial bank as part of gross reserves.[2] The NDA ceiling was missed only narrowly.
- **Of the seven end-March and end-June 2014 structural benchmarks** (relevant for the fourth review) only three were met, due to the limited functioning of the public sector (the cleaning up of the payroll, the publication of the FY2016 budget calendar, and the pilot on integration of credit-financed projects into the Integrated Financial Management Information System - IFMIS).
- **End-December 2014 targets** (originally PCs set for the fifth review) were all missed except for the targets on non-concessional borrowing and accumulation of external arrears.
- **Of the four end-December 2014 benchmarks** (originally set for the fifth review), none was met. Nonetheless, the authorities were able to press ahead with a number of structural reforms, including improving cash management and rolling out IFMIS to 17 additional spending entities.

POLICY DISCUSSIONS

A. Outlook and Risks

11. **The macroeconomic outlook remains difficult**. Growth is projected to accelerate to 3.9 percent in 2016, with services driving growth given the continued weakness in the natural

[2] In May 2015, staff was informed of the placement and clarified that such a placement does not constitute a reserve asset, and therefore the PC, which staff had assessed in September 2014 as being met, was in fact not met. The placement was reversed in August 2015. The inaccurate reporting of funds placed with the domestic commercial bank is due to insufficient capacity, and does not constitute misreporting for use of Fund resources purposes, since the fourth review has not been completed and periodic PCs were not conditions for the ad-hoc ECF review, RCF, or CCRT disbursement.

resource sectors with the exception of gold extraction. Over the medium term, growth is expected to rise to 6–7 percent on average as an improvement in confidence following the elections and a successful security transitions compensates the negative impact of delays in mining and oil exploration projects (Text Table 1, MEFP ¶7). Inflation is projected at around 8 percent in 2015–16 in the context of the rebound in economic activity and import prices.

12. **Risks to the outlook are tilted to the downside**. *Slow growth prospects for emerging markets and China* could further depress commodity prices and investment prospects, although low oil prices would help maintain inflation in the single digits. *Security risks* could increase as UNMIL withdraws in the context of the 2016 constitutional referendum and the 2017 presidential election cycle, which, combined with economic weakness, could exacerbate social tensions (Table 7 and MEFP ¶8). A wider re-emergence of the *Ebola virus epidemic* is possible, as confirmed by the recent three isolated cases, including through cross-border transmission. Possibly as a result of security and health issues, *policy implementation* under the program could weaken.

Text Table 1. Liberia: Selected Economic Indicators, 2013–18

	2013	2014	2015	2016	2017	2018
	Est.	Prel.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change)						
GDP at constant prices	8.7	0.7	0.3	3.9	5.3	5.6
Consumer prices (average)	7.6	9.9	7.8	8.0	7.9	7.5
Consumer prices (end of period)	8.5	7.7	8.0	8.1	7.8	7.1
(Percent of GDP, unless otherwise indicated)						
Current account balance	-28.2	-31.4	-39.2	-36.9	-34.4	-32.7
excluding official grants	-77.5	-94.0	-86.5	-76.8	-57.7	-54.6
Gross official reserves (mil. of US$)[1]	393.1	411.5	438.4	460.9	508.6	583.1
Overall fiscal balance (including grants)[2,3]	-1.6	-1.9	-8.1	-8.5	-5.1	-6.0
Public external debt	10.5	13.2	22.9	29.3	32.8	36.3
Memorandum item :						
Iron ore price (US$ per metric ton)	135.4	96.8	55.8	44.8	42.9	42.8
Gold (US$ per troy ounce)	1,411.1	1,266.2	1,175.4	1,157.5	1,171.2	1,187.7
Rubber (US cents per pound)	126.8	88.8	79.8	86.8	76.1	69.4

Sources: Liberian authorities and IMF staff estimates and projections.

[1] Imports related to UNMIL operations and FDI projects such as iron-ore concessions are excluded.

[2] Budget data expressed as fiscal year ending in June on a cash basis, i.e., 2013 = FY2012/13.

[3] The fiscal data and projection cover not only budget but also off-budget activities.

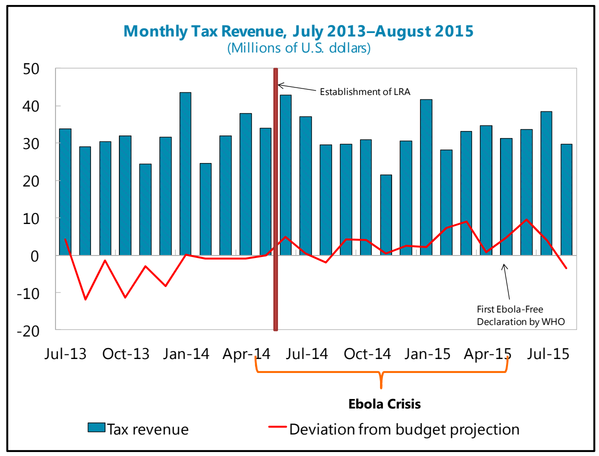
B. Fiscal Policy

13. **Government spending increased in FY2015 as the government stepped up the fight against Ebola, making the overall fiscal position more accommodative compared to FY2014**. Thanks to strong support from the international community, the government was able to increase spending mostly in the health sector, broadly in line with the revised budget approved in November 2014. The delay in the disbursement of some large donor grants was fully compensated by the RCF disbursement. The large spending envelope pushed the overall deficit (including off-budget spending) to 8.1 percent of FY2015 GDP. Nevertheless, domestic revenues exceeded the approved budget by about US$20 million (1 percent of FY2015 GDP), as strong tax collection by the newly-established LRA offset shortfalls in royalty and dividend payments caused by the drop in commodity prices (Text Table 2, Box 2, MEFP ¶11).

14. **The fiscal stance will be broadly unchanged in FY2016 (MEFP ¶12)**. Thanks to further tax reforms and the recovery from the Ebola crisis, domestic revenue is expected to increase by US$37 million (1.7 percent of FY2016 GDP). However, revenues this fiscal year may be eroded by the request for relief by companies operating in the commodity sector. Current spending is budgeted to be in line with FY2015 outturn, with more resources devoted to health and education, while capital spending is planned to increase by US$12 million (0.6 percent of FY2016 GDP) reflecting mainly off-budget spending, particularly the Mt. Coffee hydropower project. As a result, the overall fiscal deficit is expected to rise slightly to 8.5 percent of FY2016 GDP.

Box 2. Liberia Revenue Authority

The LRA was launched on July 1, 2014 as a new revenue collection entity. Creation of the LRA was approved by the Legislature in September 2013 as a part of the broader reform involving an integration of the Ministry of Finance and the Ministry of Planning and Development. Despite the Ebola crisis, the government successfully started LRA operations on time.



The LRA delivered a strong improvement in revenue collection in the midst of the Ebola crisis. Due to its expected impact of the epidemic on the economy, projected tax revenue under the FY2015 budget was revised down by 18 percent (US$76 million or 4 percent of FY2015 GDP) from the original, pre-Ebola draft budget. However, the LRA collected tax 13 percent more than budgeted in FY2015. The tax-GDP ratio for FY2015 was 18.5 percent, which was actually higher than pre-Ebola projection by 0.7 percentage points. Overall domestic revenue (tax and non-tax revenue) outturn also exceeded the projection under the FY2015 budget although weak non-tax revenue, due to the compounded effects of the Ebola crisis and the global commodity price, partially offset higher tax revenues.

The LRA faces various challenges. Tax payer registration needs to be completed urgently to widen the tax base. A tax code reform is required in order to support tax collection. Full migration from old tools and methods to Standard Integrated Government Tax Administration System (SIGTAS)[1] should be completed. Tax payment control, including advanced payments and tax refund system, also needs to be strengthened.

The IMF will continue to support the government in improving revenue collection performance. Prior to the Ebola outbreak, the Fiscal Affairs Department (FAD) had launched an intensive technical assistance (TA) program in Liberia under the Tax Policy and Administration Topical Trust Fund (TPA TTF). In addition to providing recommendations on the establishment of the LRA, FAD conducted on remote TA support in multiple areas, such as organizational development, LRA Project Implementation Plan, and data integrity improvement project, to facilitate the launch of the LRA during the Ebola crisis. After the Ebola-free declaration, in-country TA has resumed, especially in the area of VAT, human resource administration, and audit capacity building.

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[1] SIGTAS is a modern ax administration system that allows governments to improve tax compliance.

15. **Financing will continue to rely on external support**. Spending in FY2016 will be financed by identified external grants and concessional loans, and domestic financing. External budget support grants are expected to increase from US$60 million (3 percent of FY2015 GDP) in FY2015 to US$66 million (3.1 percent of FY2016 GDP) in FY2016, reflecting the shift of disbursement timing of some grants. Liberia will also benefit from disbursements under the U.S. Millennium Challenge Compact, signed in October 2015, which will finance in particular the Mt. Coffee project.

16. **The ESRP remains severely underfunded**. The unidentified funding gap is estimated at about US$812 million (41 percent of FY2015 GDP) (MEFP ¶14). If fully financed, the ESRP could in principle keep government expenditure at a relatively high level in the medium term. The FY2016 budget includes US$36 million (1.7 percent of FY2016 GDP) ESRP-related interventions.

Text Table 2. FY2015 and FY2016 Budget
(Millions of U.S. dollars)

	FY2015				FY2016
	Pre-Ebola Budget (Jul. 2014)	Approved Budget (Nov. 2014)	Actual Outturn (Commitment)	Actual Outturn (Cash)	Approved Budget (Sep. 2015)
Total revenue and grants	531	527	497	497	540
Total revenue	504	417	437	437	474
Tax revenue	415	339	382	382	412
Non-tax revenue	89	78	55	55	61
Grants	27	109	60	60	66
Total expenditure	535	609	599	594	605
Current expenditure	439	512	546	540	539
Capital expenditure	96	97	54	54	66
Overall balance	-4	-82	-102	-96	-65
Financing	4	82	102	96	65
Borrowing	28	109	146	146	59
of which: IMF		48	94	94	-
Amortization (-)	-24	-26	-22	-22	-18
Deposit in CBL (-)	0	0	-22	-28	24
Memorandum					
Budget resource envelope	559	635	643	643	623
Off-budget expenditure	179	190	215	215	225
of which: Loan financed	158	134	79	79	108
Commitment carryover					6
Unexecuted Ebola spending				12	-12
Overall balance, incl. off-budget items	-162	-217	-181	-163	-178

Source: Liberian authorities and IMF staff estimates.

Public Financial Management

17. **An audit of road projects pointed to serious weaknesses in public financial management (PFM)**. At the time of the third review, staff had found significant irregularities in the procurement and payment of road projects for a total of US$92 million (4.6 percent of FY2015 GDP). A report by the General Audit Commission (GAC), published in July 2015, revealed significant weaknesses in the management of these and other road projects, especially in expenditure control, procurement process, and project implementation and monitoring.[3] The government made payments to construction companies in FY2015 for a total of US$32 million (1.6 percent of FY2015 GDP) before completion of the audit to maintain liquidity in the banking

Text Table 3. Unfunded Road Commitment
(Millions of U.S. dollars)

Size of unfunded commitment	92
Amount paid	47
FY2014	15
FY2015	32
Outstanding	46
FY2016 budget allocation	23
FY2017 payment	23

Source: Liberian authorities.

[3] The GAC audit report on Special Procurement of the Ministry of Public Works for Construction of Roads and Bridges throughout Liberia is publically available at http://www.gac.gov.lr/auditDoc/MPW%20SPECIAL%20PROCUREMENT%20Final%20AG%20Report%20Volume%20I.pdf and http://www.gac.gov.lr/auditDoc/MPW%20PROJECT%20FIELD%20VERIFICATION%20REPORT%20Volume%20II.pdf.

sector during the Ebola crisis. The government plans to repay the remaining US$46 million (2.2 percent of FY2016 GDP) in FY2016 and FY2017 (Text Table 3, MEFP ¶15).

18. **The government is developing an action plan to solve the PFM issues identified by the GAC audit**. The authorities noted that the GAC has transmitted its report to the Legislature, which will consider its recommendations and initiate legal proceedings as needed. They also underlined that project execution and payment are made more difficult by the absence of multi-year budgeting, which requires finding new appropriations every year for already-started projects. However, they agreed with staff on the urgency of addressing the systemic weaknesses underlined in the report. To this end, the MFDP is preparing an action plan (*prior action*) that will include: (i) review of the PFM Act to improve compliance of ministries and agencies to the Act; (ii) application of the criteria for sole sourcing according to section 55(1) of the Public Procurement and Concessions Act; (iii) establishment and staffing of a project evaluation function in the Public Investment Unit (PIU) of MFDP; (iv) submission of economic and financing analyses of all new projects in the FY2017 budget to the Minister (*structural benchmark*); (v) development of a multi-year implementation schedule for existing multi-year projects; (vi) establishment of domestically-financed public investment project database (*structural benchmark)*; (vii) expand existing externally-financed public project database to cover cost overrun, project implantation delay, and payment arrears (*structural benchmark*); (viii) launch of a regular donor meeting to collect necessary information to update the database (*structural benchmark*); (ix) extension of the coverage of IFMIS (*structural benchmark*); and (x) assessment of the current practices of public investment management and development of an action plan to reform the current system in close collaboration with the IMF FAD (MEFP ¶16).

19. **In addition, the government will push ahead with PFM reform to improve budget credibility, financial accountability, transparency, and reporting**. The government committed to the following measures: (i) all ministries and agencies will submit their spending and procurement plans for FY2017 to the Public Procurement and Concession Commission (PPCC) (*structural benchmark*); (ii) the MFDP will continue to publish quarterly budget execution reports; (iii) the government continues to take steps towards the full implementation of the Treasury Single Account (TSA); and (iv) the MFDP starts to publish quarterly report on financial performance of State Owned Enterprises (SOEs) (*structural benchmark*) (MEFP ¶18).

C. Monetary and Financial Sector Policies

Monetary Policy and Liquidity Management

20. **The CBL's net foreign exchange position has weakened since the start of the ECF**. The foreign exchange position net of liabilities (including ECF purchases and government deposits) has been declining under the ECF arrangement, from US$280 million in March 2012 to US$179 million at end-2014, and US$161 million at end-September 2015. The decline in net reserves was driven in part by Ebola and the commodity price shocks, which have worsened the external position. In part, however, the negative trend was due to the operational deficits of the CBL, which directly subtract from foreign reserves under Liberia's dual currency regime. The CBL's operational spending

increased in 2012–15 as the CBL completed the construction of the new CBL building and stepped up credit stimulus schemes aimed at the agricultural sector and other direct interventions in the economy, including sales of foreign exchange to agricultural operators, and, more recently, Ebola-related exceptional financial support, especially in the micro-finance and education sectors. The CBL confirmed that it did not carry out direct interventions in the economy in 2015 (MEFP ¶24).

21. **The authorities agree that the net reserve position must be strengthened in the context of higher external and domestic financial system vulnerabilities**. The CBL noted that the exceptionally low level of global interest rates is putting unprecedented pressure on its budget, as well as the budgets of many other central banks, and underlined that the large exceptional spending in past years was effectively terminated in the first half of 2015. In this regard, the CBL is developing a three-year action plan to strengthen its operational efficiency through prudent budgeting (*prior action*) that will reduce its operational deficits (MEFP ¶25). The CBL also agreed to limit interventions in the foreign exchange market to volatility smoothing, while allowing the exchange rate to adjust to changes in fundamentals such as the end of the international Ebola response and UNMIL drawdown (MEFP ¶24). The CBL also intends to strengthen its international reserve management by updating its investment guidelines and align them with best international practices, especially with respect to requirements for placement of foreign exchange reserves (*prior action*) (MEFP ¶25).

22. **The CBL is improving its liquidity management capabilities to reduce its reliance on foreign exchange sales**. The government is the CBL's main source of foreign exchange. Under the dual currency system, liquidity management is key to ensure a balance between US dollar and Liberian dollar liquidity, which is structurally in excess. The authorities are fully aware of the need to improve liquidity management to sterilize more efficiently Liberian dollar liquidity. To this end:

- The CBL and the MFDP have resumed weekly liquidity monitoring committee meetings, starting May 2015;
- The CBL is enhancing liquidity forecasts, with the help of recently resumed Fund technical assistance; and
- The CBL plans to modify the implementation of reserve requirements (*structural benchmark*) to allow banks to meet them, on average, over a maintenance period, as a first step toward providing more flexibility for banks to manage their liquidity and reduce excess reserves (MEFP ¶26).

Staff also recommended strengthening domestic money market operations based on the regular issuance of short-term CBL notes as opposed to the current ad-hoc issuances at maturities similar to those of Treasury Bills. At the same time, the government should expand longer-maturity securities for financing purposes, while short-term CBL notes would support liquidity management, with a view to gradually developing a yield curve. As an additional liquidity instrument, the MFDP and the CBL could also agree to securitize the government debt owned by the CBL in line with MCM recommendations.

Banking Sector

23. **The economic slowdown is putting pressure on the banking sector**. Banks were already overburdened with NPLs—in addition to weak profitability—before the outburst of the Ebola epidemic. Thanks to the efforts of the CBL, NPLs had declined to below 15 percent of total loans by end-2013. The recent increase to 19.3 percent by end July 2015 was mainly due to the negative impact of the epidemic on private sector activity. Because of the crisis, the CBL temporarily relaxed provisioning norms in the first six months of 2015, particularly for Ebola-related NPLs, and utilized moral suasion to persuade banks to restructure some facilities.

24. **The CBL is undertaking an assessment of its crisis-related measures, and is developing procedures for crisis preparedness and management**. The CBL intends to enforce mandatory loan write-offs of fully provisioned loans, which came into force through an amendment of the supervisory guidelines in December 2014 (MEFP ¶23). Aware that regulatory forbearance risks masking the extent of the deterioration of bank assets, the CBL will complete the review of its implementation of forbearance measures and the related impact on the banking sector by end-December 2015 (*structural benchmark,* MEFP ¶24). As a near-term priority, the CBL also committed to intensify oversight of credit risk management and restructuring practices. The CBL is developing, with assistance from MCM, a framework for crisis preparedness and management (MEFP ¶24).

D. External Sector Policies

25. **The exceptional external support in the fight against Ebola has contributed to push up new external borrowing**. Newly contracted external borrowing has accelerated since 2012 (Text Table 4), with total loans of US$844 million ratified since the beginning of the ECF arrangement in November 2012, mostly concessional loans from traditional creditors (World Bank, African Development Bank, International Fund for Agricultural Development). This amount implies an 8.3 percent average annual PV of debt to GDP over the program period to end-June 2015, higher than the 5.3 percent target envisaged at the time of the third ECF review, with additional Ebola-related loans and lower GDP together contributed one percentage point.

Text Table 4. Contracted New External Debt By Creditors

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Total new debt (in US$ million)	**26**	**27**	**113**	**416**	**190**	**231**
In percent of GDP	**2.1**	**1.9**	**6.9**	**22.5**	**9.5**	**11.5**
Of which:						
Concessional	26	27	113	402	190	231
Nonconcessional	0	0	0	14	0	0
By creditor (in percent of total)						
Multilateral	100	100	100	94	24	91
Non-Paris Club bilateral	0	0	0	6	76	9
Average grant element (percent)	**60**	**60**	**59**	**55**	**41**	**48**

26. **The risk of debt distress has increased from low to moderate**. The combined impacts of the Ebola crisis and the sharp decline in commodity prices have significantly affected the growth and exports outlook. In addition, the government is expected to contract several loans to finance infrastructure investment over the medium term. As a result, the updated debt sustainability analysis (DSA) indicates that the present value of debt-to-exports and debt-to-GDP ratios would breach the

policy-dependent thresholds over the medium term under the most extreme shock scenario, triggering a change of the debt risk rating from the current low level to a moderate level (see DSA Annex). Moreover, debt sustainability is vulnerable to a further downturn in exports, which may take Liberia to high risk of distress.

27. **The moderate risk rating implies changes on external borrowing targets under the new debt limits policy**. Given Liberia's adequate debt monitoring capacity and moderate risk of debt distress, the new policy requires setting new PCs for end-December 2015 (fifth review) and end-June 2016 (sixth review) on the present value of newly contracted external borrowings, which would replace the PC on zero non-concessional borrowings and the IT on public external borrowing.[4]

28. **In light of the worsened debt outlook, the authorities committed to a prudent borrowing plan for FY2016**. The authorities agree with the risks flagged by the DSA. They underlined the challenge of balancing macroeconomic discipline with the large financing needs to fund the country's development. They committed to continue to prioritize grants and focus on priority projects financed by highly concessional loans. In this regard, they committed to a prudent borrowing target for FY2016 (about US$180 million in nominal term for priority projects, Text Table 5) which will require a significant streamlining of new concessional agreements compared to the pipeline. This target implies an average annual PV for the FY2016 of 4.6 percent, which would bring down the average annual PV of debt to GDP to 7.1 percent over the program period down from 8.3 percent from the start of the program to end-June 2015. All loans signed in FY2016 are expected to be on concessional terms, with the bulk of the borrowing coming from multilateral creditors for financing infrastructure projects and Ebola-related spending.

Text Table 5. Summary Table of Projected External Borrowing Program
July 1, 2015 to June 30, 2016

PPG external debt	Volume of new debt in FY15/16		PV of new debt in FY15/16 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**178.0**	**100**	**94.9**	**100**
Concessional debt, of which	**163.0**	**92**	**84.6**	**89**
Multilateral debt	126.0	71	62.8	66
Bilateral debt	37.0	21	21.9	23
Non-concessional debt, of which	**15.0**	**8**	**10.2**	**11.0**
Bilateral debt	15.0	8	10.2	11.0
By Creditor Type	**178.0**	**100**	**94.9**	**100**
Multilateral	126.0	71	62.8	66
Bilateral - Non-Paris Club	52.0	29	32.1	34
Uses of debt financing	**178.0**	**100**	**94.9**	**100**
Infrastructure	158.0	89	85.5	90
Social Spending	10.0	6	4.7	5
Budget Financing	10.0	6	4.7	5
Memo Items				
Indicative projections				
Year 2	**140.0**		**74.6**	
Year 3	**140.0**		**74.6**	

Sources: Liberian authorities and staff estimation.

29. **Over the medium term, the authorities also intend to further prioritize new loans in order to leave fiscal space for the future government.** They are mindful of the trade-off between

[4] The new PC target will be monitored based on the ratification date of new debt contracts.

debt vulnerabilities and developmental needs, and are reviewing the current medium-term debt strategy with assistance from the World Bank and the IMF.

30. **Progress has been achieved in advancing regional and multilateral trade agreements**. Following the delay in the process due to the Ebola crisis, Liberia will be implementing the ECOWAS Common External Tariff (CET). The protocol of the ECOWAS Trade Liberalization Scheme (ETLS) is awaiting ratification. Liberia is also on track to reach WTO membership by end-2015 (MEFP ¶30).

PROGRAM MONITORING AND RISKS

31. **Staff supports the authorities' request for waivers of nonobservance and modifications of program targets, and the re-phasing and extension of the program**.

- In terms of the missed PC on the revenue floor, corrective measures have been put in place with the establishment of the LRA in July 2014 which has improved revenue collection. In addition, the LRA is implementing measures to improve tax collection, including the completion of tax registry and the opening of accounts for all large tax payers. With regard to the PC on the CBL's net foreign exchange position, the CBL has taken steps to increase reserves, including by strengthening its operational budget performance.

- New PCs proposed for December 2015 and June 2016 take into account the impact of the Ebola crisis and the decline of export prices. Prior actions on the action plan to address PFM weaknesses underlined by the GAC report on road projects, CBL's three-year budgetary plan and revision of investment guidelines aim at supporting key PFM improvements and the build-up of international reserves. Proposed structural benchmarks for the fifth and sixth reviews support policies agreed in the MEFP; some benchmarks have been carried over from the fourth review (MEFP Tables 1, 4, and 5).

- The authorities are proposing an extension to December 31, 2016 and the rephasing of target dates for the fifth and sixth reviews to end-December 2015 and end-June 2016, respectively.

32. **The safeguards assessment update, finalized in November 2015, noted that slow progress in implementing recommendations from the 2013 assessment contributed to heightened safeguards risks at the CBL**. The assessment recommended strengthening independent oversight by the Board of Governors and the Audit Committee, and aligning the investment guidelines with best international practice to shield the CBL from counterparty risk. The assessment also noted the need for a strategy to address the imbalances between operating revenues and expenditures to improve the CBL's financial position.

33. **Liberia's capacity to repay the Fund is adequate**. Total outstanding Fund credit currently amount to 83.8 percent of quota. Although the risk of debt distress has increased from low to moderate, the debt level remains low. Grants under the CCR Trust have allowed prepayment of Liberia's debt service obligations to the Fund until late 2018.

34. **Program risks have increased**. The early start of the presidential election cycle could complicate the budget approval process and hinder further reform. Worsening security could limit the authorities' policy space. External debt may increase more rapidly than expected, should the government fail to streamline and prioritize the contracting of new loans. Finally, failure to follow up on the commitments to address weak governance and lack of accountability in the use of public resources could reduce the flow of donor funding for recovery and development.

STAFF APPRAISAL

35. **Staff congratulates the authorities for their leadership in curbing the Ebola outbreak**. To achieve this result, the authorities combined their efforts with an unprecedented international support and strong community engagement. Continued vigilance and cross-border cooperation with Guinea and Sierra Leone will be needed to permanently eradicate the disease, as underlined by the recent cases. Over the coming years, building a more resilient health system and developing social safety nets remains a priority.

36. **The decline in commodity prices is compounding the impact of Ebola, dampening the recovery and raising risks for medium-term prospects**. Economic activity is projected to remain weak in 2015 and the pick-up in 2016 will likely be lower than previously expected. However, sound macroeconomic policies, steady implementation of the government's recovery plan supported by adequate external financing, and renewed efforts to diversify the economy could help improve medium term growth prospects.

37. **Program performance is mixed**. Program implementation capacity deteriorated significantly due to the outbreak and policy and operational weaknesses, leading to delays in key reforms. With the end of the epidemic, renewed momentum towards ECF program objectives is key to maintain macroeconomic stability, improve policy credibility, and unlock additional donor support.

38. **The fiscal policy stance is appropriate given strong expected domestic revenues and additional external financing**. Staff welcomes the reallocation of resources in favor of social sectors, including health and education in the FY2016 budget. The commitment to further strengthening revenue collection is also encouraging. In this regard, the government should be very cautious in considering relief for foreign companies operating in the commodity sector, which should be approved only after a careful assessment and be temporary, transparent, evenhanded, and publicly announced. Furthermore, compensating measures should be identified for the revenue shortfall. In the coming years, the need to preserve debt sustainability and the likely decline in external support will require a prudent expenditure policy that aims at capping real spending and keeps shifting resources to priority sectors.

39. **The authorities should resolutely address remaining weaknesses in PFM**. Staff urges the authorities to press ahead with implementation of measures to strengthen the credibility of the

budget and the management of public investment. Staff welcomes the publication of the audit of the off-budget road contracts.

40. **Rebuilding external buffers must be a priority given increased vulnerabilities**. Higher reserves are needed to preserve the CBL's ability to intervene in the foreign exchange market and act as a lender of last resort in the context of the dual currency regime. To this effect, the CBL should continue to intervene only to smooth out excessive exchange rate volatility while allowing the exchange rate to adjust to changing fundamentals. The reserve position will also be supported by the CBL's plan to contain operational expenses and its commitment to avoid direct interventions in the economy.

41. **Enhanced liquidity management will be essential to contain inflation**. Staff welcomes the coordination between the CBL and MFDP and the commitment to enhance liquidity forecasts, and encourages the authorities to further develop domestic monetary policy instruments.

42. **The crisis has put the financial system under stress**. The relaxation of provisioning requirements and restructuring of loans during the crisis has masked rising vulnerabilities. Further, banking system weaknesses have been amplified by weak profitability. Staff urges the authorities to prioritize completing their review of implementation of the regulatory forbearance and strengthen bank supervision. In addition, the CBL should intensify its oversight of credit risk management and restructuring practices while encouraging commercial banks to write off irrecoverable loans. The CBL must also enhance, in parallel, the foreclosure and insolvency frameworks to improve recovery values and facilitate the development of a market for distressed assets. Staff welcomes the CBL's plan to develop a framework for crisis preparedness and management, in particular a framework for emergency liquidity assistance, with technical assistance from the Fund.

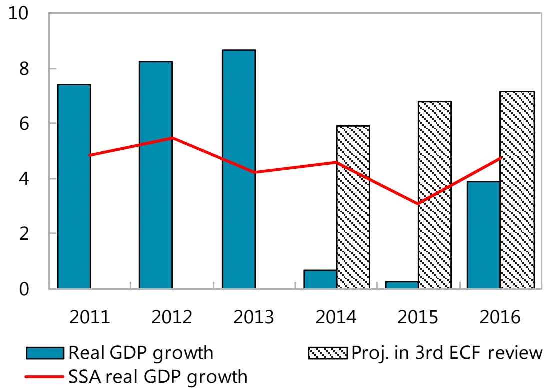
43. **The combined impacts of the Ebola crisis and the sharp decline in iron ore prices have worsened the debt sustainability outlook**. With the risk of debt distress having moved from low to moderate, the authorities need to continue to prioritize grants and highly concessional financing. Staff welcomes the authorities' plan to streamline the borrowing pipeline in the short term—reflected in the prudent debt limit in FY2016, now a PC under the new debt limits policy—and update their medium term debt strategy.

44. **On the basis of the strength of the authorities' policy commitments and corrective measures, staff supports the completion of the delayed fourth review and the authorities' requests for waivers of nonobservance of performance criteria and modification of performance criteria, and the re-phasing and extension of the ECF arrangement**.

Figure 1. Liberia: Recent Economic Developments

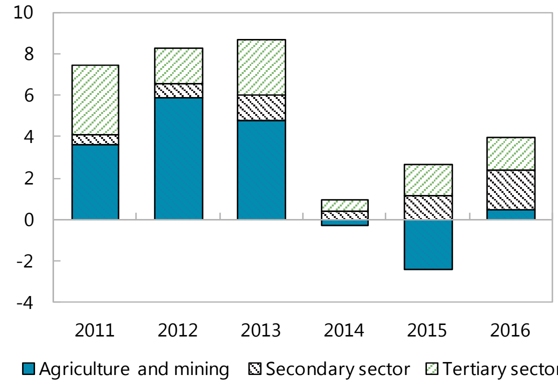
Economic activity is expected to remain weak in 2015, but should strengthen in 2016.

GDP Growth
(Percent)



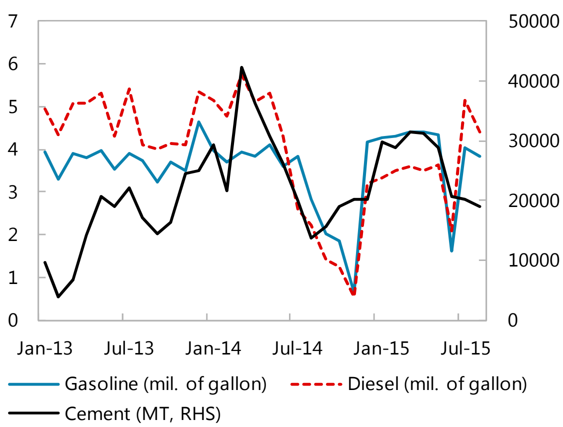
All sectors have been impacted by Ebola and lower commodity prices.

Contribution to Growth
(Percent)



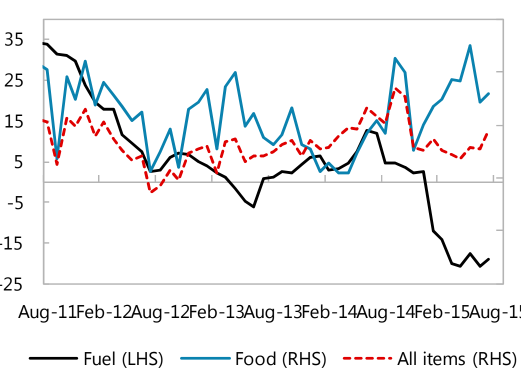
Fuel sales and cement production dropped sharply.

Fuel Sales and Cement Production



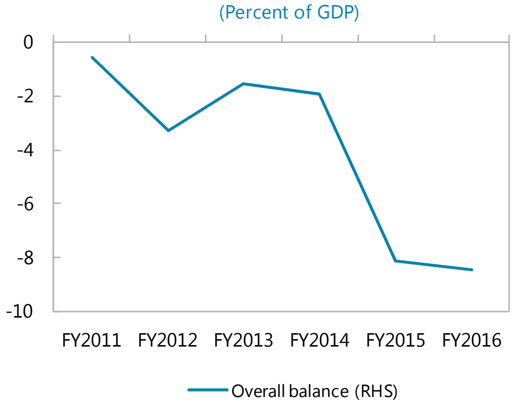
Inflation has been contained also thanks to low food and fuel prices.

Components of Inflation
(12 month percent changes)



In FY2015, the overall government balance sharply deteriorated...

Overall Fiscal Balance
(Percent of GDP)



...driven by a sharp increase in expenditure and decrease in revenue, partially offset by higher external grants.

Fiscal Policy
(Percent of GDP)

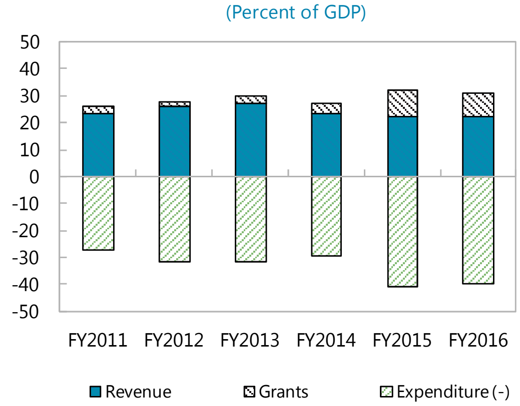
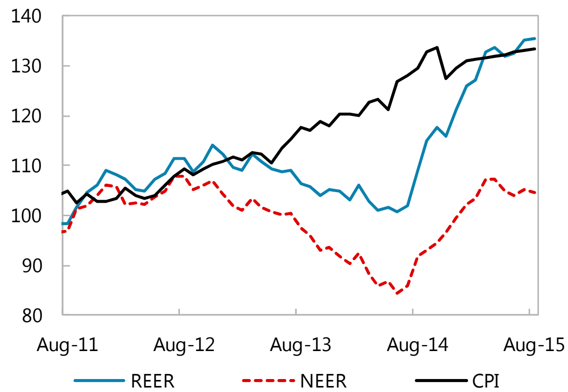


Figure 2. Liberia: External Sector Developments

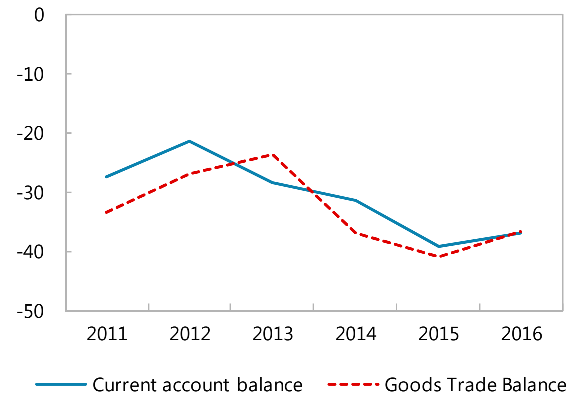
The real effective exchange rate appreciated rapidly since August 2014.

Effective Exchange Rate
(Index, 2011=100)



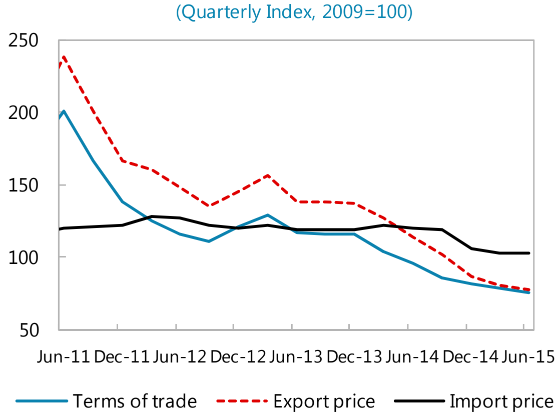
The current account deficit is projected to widen further in 2015, mainly owing to the deteriorated trade balance.

Current Account Balance
(Percent of GDP)



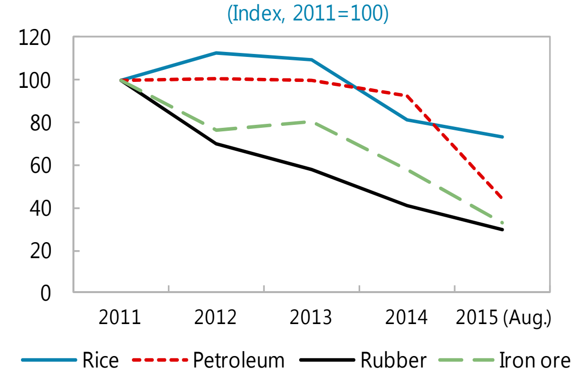
The terms of trade are falling…

Terms of Trade
(Quarterly Index, 2009=100)



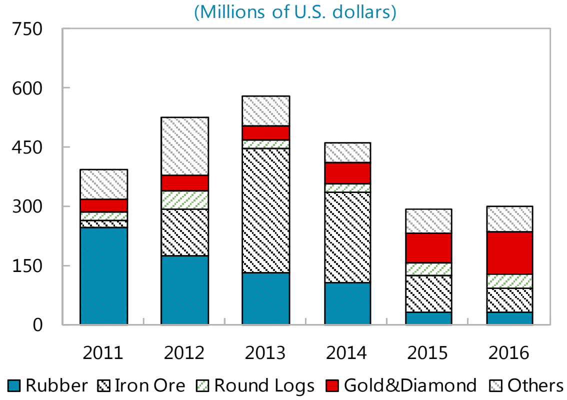
…driven by a sharp price decline in iron ore and rubber.

Commodity Prices
(Index, 2011=100)



The decline in exports was driven by iron ore exports, followed by rubber.

Exports
(Millions of U.S. dollars)



Aid-related imports are expected to decline with the end of Ebola.

Imports
(Millions of U.S. dollars)

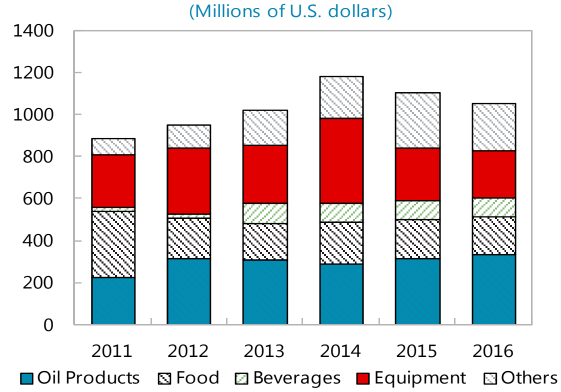
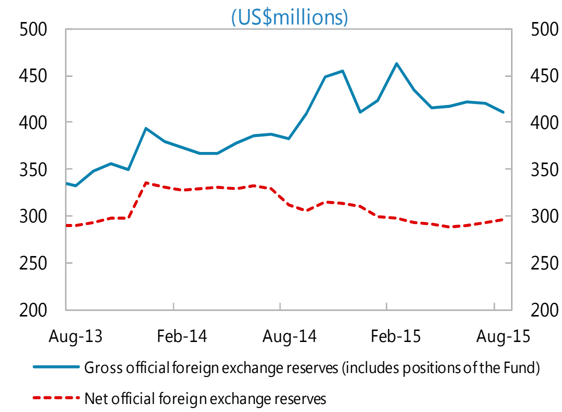


Figure 3. Liberia: Foreign Exchange Market Developments

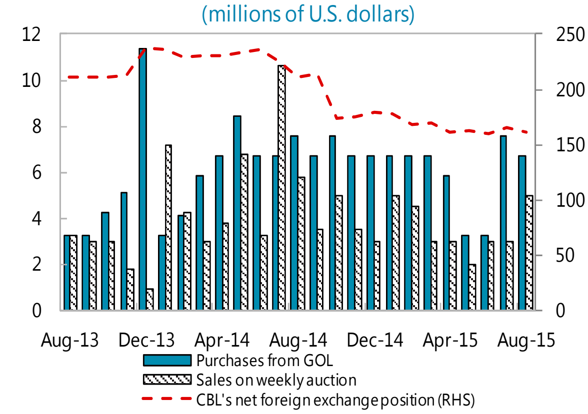
Gross foreign exchange reserves have slightly declined from the end 2014 level.

Official Foreign Exchange Reserves



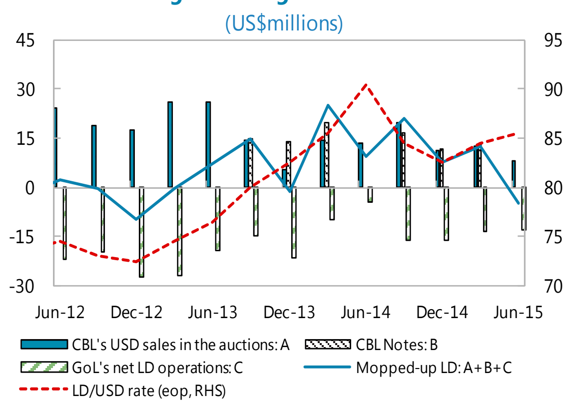
CBL's net foreign exchange position has declined owing to new building, interventions and operational expenses.

CBL's Net Foreign Exchange Reserves Position



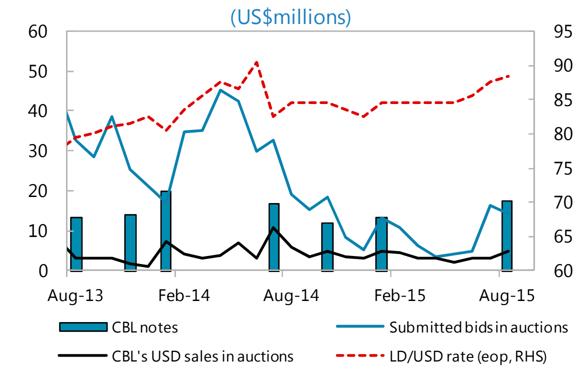
Sterilization efforts remain limited as mopping operations are irregular and small in size.

Foreign Exchange Transactions



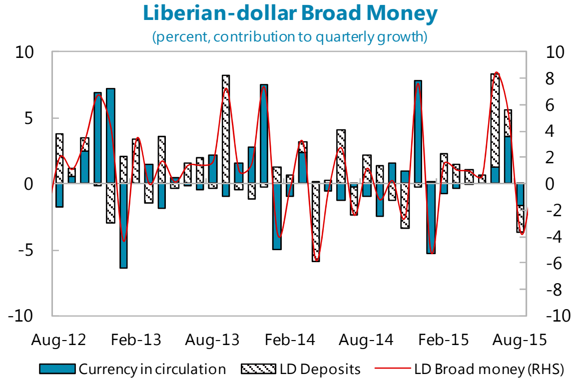
The CBL increased its sales at the auction in mid-2015 to meet high demand for foreign exchange.

Demand and Supply in FX Auctions



Increased government spending at the end of FY14/15 contributed to a pick-up in Liberian-dollar money supply.

Liberian-dollar Broad Money



Government spending caused a shift of broad money movements from US$ to L$.

Broad Money by Currency

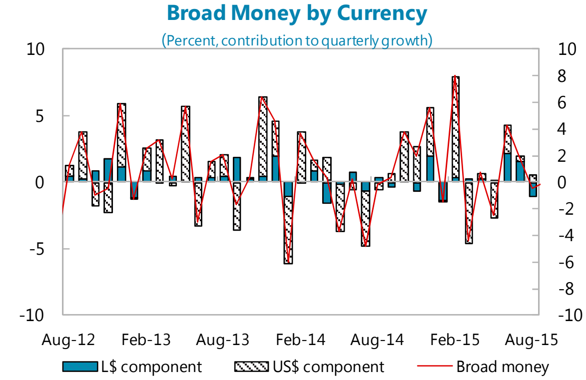
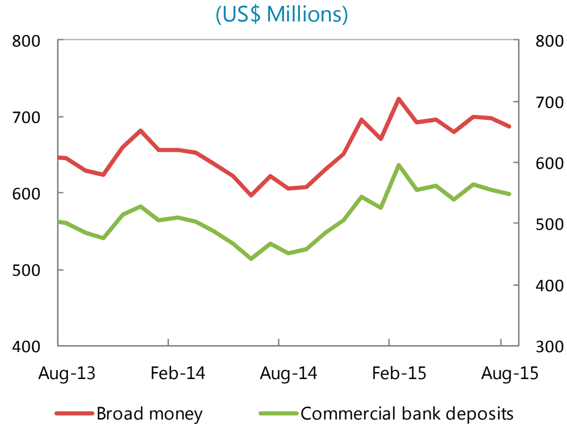


Figure 4. Liberia: Monetary and Financial Developments

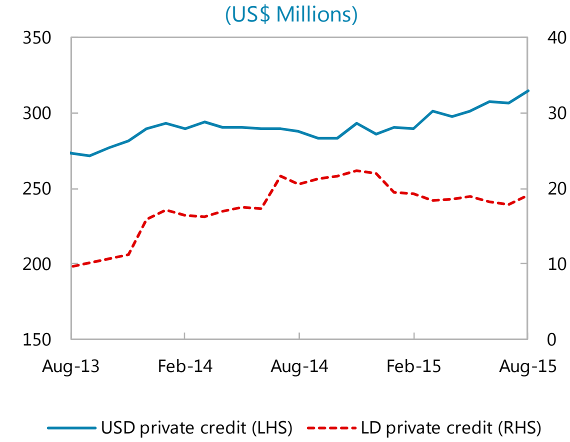
Shored up by Ebola-related external assistance, broad money growth has picked up...

Broad Money
(US$ Millions)



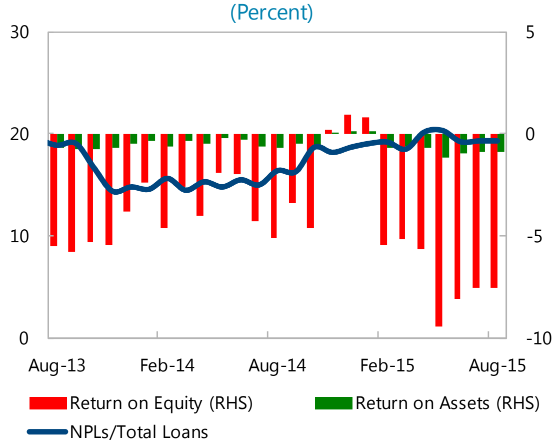
...but weak economic activity has taken a toll on lending to the private sector in Liberian dollars...

Credit to the Private Sector by Currency
(US$ Millions)



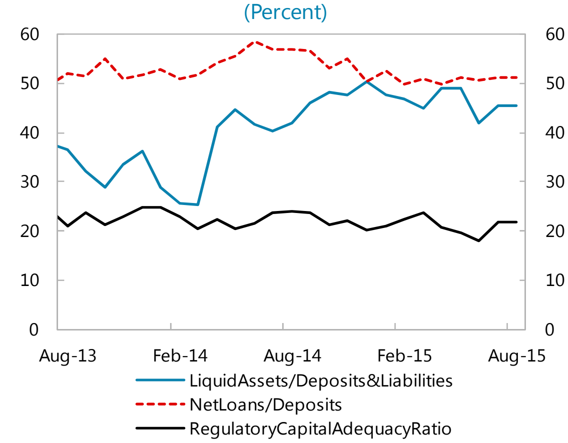
...and asset quality has deteriorated with already weak banks' profitability...

Bank Profitablity
(Percent)



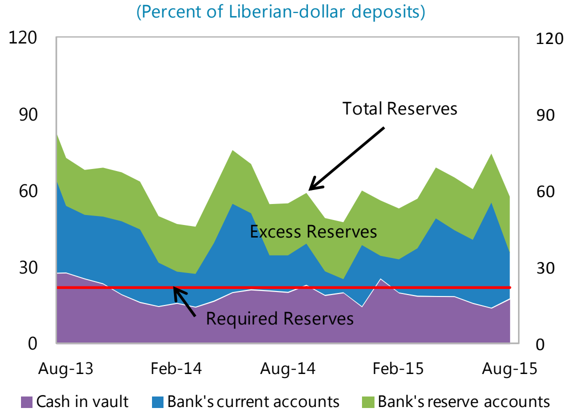
...yet system-wide solvency and liquidity indicators appear comfortable above regulatory minima.

Banking Sector Liquidity and Capital
(Percent)



Increased spending by government in Liberian dollars has led to surplus Liberian dollar liquidity...

Excess Liberian-dollar Liquidity
(Percent of Liberian-dollar deposits)



... while U.S. dollar liquidity remains relatively stable.

Excess U.S. dollar Liquidity
(Percent of U.S. dollar deposits)

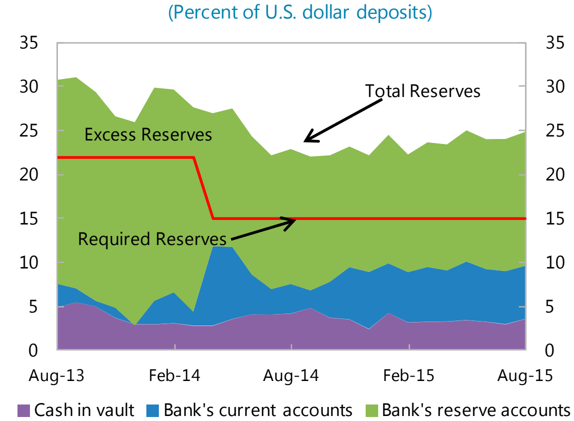


Table 1. Liberia: Selected Economic and Financial Indicators, 2013–18

	2013	2014	2015	2016	2017	2018
	Est.	Est.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)						
National account and prices						
GDP at constant prices	8.7	0.7	0.3	3.9	5.3	5.6
GDP at constant prices excl. mining sector	4.2	0.3	3.0	4.6	4.9	6.1
GDP deflator (US dollars)	3.4	1.9	1.7	1.1	1.8	2.7
Nominal GDP (millions of U.S. dollars)	1,962	2,013	2,053	2,157	2,313	2,507
Consumer prices (average)	7.6	9.9	7.8	8.0	7.9	7.5
Consumer prices (end of period)	8.5	7.7	8.0	8.1	7.8	7.1
External sector						
Exports, f.o.b.	16.6	-21.8	-40.7	1.7	6.4	7.1
Imports, f.o.b	7.4	15.6	-6.7	-4.2	-5.3	0.6
Terms of trade (deterioration -)	1.0	-11.4	-8.4	4.2	-0.7	-2.0
Average exchange rate (local currency per U.S. dollar)	77.4	84.8	…	…	…	…
Nominal effective exchange rate (e.o.p., depreciation -)	-12.2	8.4	…	…	…	…
Real effective exchange rate (e.o.p., depreciation -)	-6.6	15.6	…	…	…	…
Gross official reserves (months of imports) [1]	2.4	2.5	2.7	2.8	3.0	3.4
Gross official reserves (millions of U.S. dollars)	393	411	438	461	509	583
(Percent of GDP)						
External sector						
Current account balance	-28.2	-31.4	-39.2	-36.9	-34.4	-32.7
excluding official grants	-77.5	-94.0	-86.5	-76.8	-57.7	-54.6
Trade balance	-23.5	-36.8	-41.0	-36.6	-31.0	-28.1
Exports, f.o.b.	28.5	21.7	12.6	12.2	12.1	12.0
Imports, f.o.b	-52.0	-58.5	-53.6	-48.8	-43.2	-40.1
(Percent of GDP, fiscal year)						
Central government[2, 3]						
Total revenue and grants	29.9	27.4	32.3	31.2	30.6	27.2
Of which: total revenue	27.5	23.5	22.4	22.5	23.1	24.1
Total expenditure and net lending	31.5	29.3	40.4	39.7	35.7	33.1
Of which: current expenditure	26.6	24.3	31.8	29.2	27.5	25.4
capital expenditure	4.9	5.0	8.6	10.5	8.2	7.8
Overall fiscal balance (including grants)	-1.6	-1.9	-8.1	-8.5	-5.1	-6.0
Overall fiscal balance (excluding grants)	-4.0	-5.8	-18.1	-17.2	-12.6	-9.0
Public external debt	10.5	13.2	22.9	29.3	32.8	36.3
Central government domestic debt	16.7	14.9	14.5	12.9	11.9	11.0

Sources: Liberian authorities and IMF staff estimates and projections.

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

[2] Budget data expressed as fiscal year ending in June on a cash basis, i.e., 2013 = FY2012/13.

[3] The fiscal data and projection cover not only budget but also off-budget activities.

Table 2. Liberia: Balance of Payments, 2013–18[1]

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

	2013	2014	2015			2016		2017	2018
	Est.	Est.	Third Review	RCF	Proj.	Third Review	Proj.	Proj.	Proj.
Trade balance	-461	-741	-723	-814	-841	-560	-790	-718	-704
Exports, f.o.b.	559	437	598	302	259	737	263	280	300
of which: Iron ore	314	229	323	123	93	479	57	51	51
of which: Gold	21	18	28	16	50	30	83	105	112
Imports, f.o.b	-1,020	-1,178	-1,321	-1,116	-1,100	-1,297	-1,053	-998	-1,004
Services (net)	-743	-1,003	-647	-633	-852	-505	-810	-549	-578
Income (net)	-372	-338	-346	-323	-280	-343	-262	-281	-312
of which: Public interest payments due	-2	-2	-5	-3	-3	-6	-4	-6	-7
Current transfers	1,022	1,451	878	989	1,169	844	1,067	751	773
of which: Ebola-related grants		56		45	46		0	0	0
Current account balance	-554	-632	-837	-781	-804	-564	-795	-796	-821
Current account balance, excluding grants	-1,520	-1,892	-1,655	-1,662	-1,775	-1,344	-1,657	-1,334	-1,370
Capital and financial account (net)	543	594	836	564	707	586	818	843	899
Capital account	64	117	0	0	53	0	51	54	55
Financial account	479	478	836	564	654	586	767	790	844
Foreign direct investment (net)	432	225	341	174	277	329	243	299	353
Portfolio investment (net)	0	0	0	0	0	0	0	0	0
Other investment (net)	47	253	495	391	376	257	524	490	491
Official financing: medium and long term (net)	27	93	132	151	114	139	140	132	135
of which: Ebola-related loans		0		81	19		29	0	0
Private financing (net)[2]	20	160	363	239	263	118	384	359	355
Errors and omissions	0	0	0	0	0	0	0	0	0
Overall balance	-11	-38	-1	-216	-97	22	22	48	77
Financing	11	38	1	89	97	-22	-22	-48	-77
Change in gross official reserves (increase -)[3]	-12	-18	-16	61	-20	-25	-22	-48	-74
Net use of IMF credit and loans	23	56	17	28	80	3	0	0	-3
Exceptional financing	0	0	0	0	36	0	0	0	0
Financing gap (- deficit / + surplus)	0	0	0	-127	0	0	0	0	0
Memorandum items:									
Current account balance (percent of GDP)									
Including grants	-28.2	-31.4	-35.4	-40.2	-39.2	-21.5	-36.9	-34.4	-32.7
Excluding grants	-77.5	-94.0	-70.1	-80.8	-86.5	-51.2	-76.8	-57.7	-54.6
Trade balance (percent of GDP)	-23.5	-36.8	-30.6	-39.6	-41.0	-21.3	-36.6	-31.0	-28.1
Donor transfers (net, percent of GDP)	49.2	62.6	34.6	40.7	47.3	29.7	40.0	23.3	21.9
Foreign direct investment (net, percent of GDP)	22.0	11.2	14.4	8.5	13.5	12.5	11.3	12.9	14.1
Public sector external debt (medium and long term, percent of GDP)[4]	10.5	13.2	21.9	23.6	22.9	25.6	29.3	32.8	36.3
Gross official reserves	393	411	430	301	438	455	461	509	583
Gross official reserves (months of imports)[5]	2.4	2.5	3.0	2.3	2.7	3.0	2.8	3.0	3.4

Sources: Liberian authorities and IMF staff estimates and projections.

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

[2] The large "private financing" numbers may reflect current transfers that are un-captured by the official statistics, while the central bank is currently updating the BOP statistics to resolve this issue.

[3] Includes SDR holdings.

[4] Recorded in fiscal years.

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

Table 3a. Liberia: Fiscal Operations of the Central Government, FY2013–18[1]

(Millions of U.S. dollars)

	FY2013	FY2014	FY2015			FY2016			FY2017	FY2018
	Est.	Est.	Third Review	RCF	Est.	Third Review	RCF	Proj.	Proj.	Proj.
Total revenue and grants	555	549	559	600	646	638	526	657	688	654
Revenue	509	471	499	427	447	568	469	474	520	581
Tax revenue	369	386	399	326	369	464	379	399	432	487
Non-tax	140	86	100	101	78	103	90	74	88	95
Grants	46	78	60	173	199	70	57	183	168	73
of which: Ebola-related grants	0	0	0	116	137	0	0	39	0	0
Expenditure and net lending	584	588	718	746	809	771	728	835	803	798
Current expenditure	493	488	442	544	637	497	486	614	618	612
Wages and salaries	211	200	214	246	249	238	221	258	260	270
of which: Ebola-related, off-budget				33	15			6		
Goods and services	162	163	129	117	268	143	142	234	235	214
of which: Ebola-related, off-budget					39			6		
Subsides and transfers	114	119	89	171	112	99	112	112	112	114
of which: Ebola-related, off-budget				48	9					
Interest	6	5	10	9	8	16	10	10	10	13
Capital expenditure	91	100	276	202	173	275	243	222	185	187
of which: Mount Coffee	0	61	55	70	47	58	58	87	66	0
Foreign loan financed	12	39	158	56	72	162	117	83	76	100
Foreign grant financed	23	41	21	49	40	70	45	66	66	37
Domestically financed	56	20	96	97	61	43	80	72	43	50
Overall balance										
Including grants	-29	-39	-159	-145	-163	-134	-202	-178	-116	-144
Excluding grants	-75	-117	-218	-319	-362	-204	-259	-362	-284	-217
Identified financing	29	39	159	145	163	134	99	178	116	144
External financing (net)	7	44	151	104	114	145	110	144	123	140
Loans	12	49	158	111	119	162	117	149	126	144
of which: Ebola-related loans	0	0	0	51	48	30	30	39	0	0
Amortization (-)	-5	-5	-7	-7	-6	-17	-7	-4	-3	-4
Domestic financing (net)	22	-5	8	41	49	-11	-11	34	-7	5
Central Bank of Liberia	6	-30	0	55	60	0	0	47	-3	-3
Use of deposits	19	-22	0	12	-33	0	0	47	0	0
Gross borrowing	21	4	0	58	99	0	0	0	0	0
Amortization	-34	-12	0	-15	-5	0	0	0	-3	-3
Deposit money banks	14	18	10	0	-10	-10	-10	-12	-3	10
Treasury bill purchases (net)	5	23	0	0	0	0	0	0	9	10
Other lending to government (net)	9	-5	10	0	-10	-10	-10	-12	-12	0
Other (including repayment of arrears)	2	8	-3	-14	-1	-1	-1	-1	-1	-2
Financing gap (- deficit / + surplus)	0	0	0	0	0	0	-104	0	0	0
Memorandum items:										
Iron-ore related revenue [2]	38	29	44	23	22	58	19	16	18	20
Total public external debt [3]	195	264	491	483	458	638	604	615	738	875
Central government domestic debt [4]	309	303	311	283	291	299	271	271	268	264
of which: foreign currency denominated	297	283	301	272	271	290	261	261	258	255
Basic balance [5]	62	61	117	57	10	141	40	43	70	43
Current balance	16	-16	57	-117	-189	71	-17	-140	-98	-30
Primary balance, including grants	-23	-34	-149	-136	-155	-118	-192	-168	-105	-131
Fiscal year nominal GDP	1,854	2,006	2,242	2,042	2,001	2,494	2,142	2,104	2,250	2,410

Sources: Liberian authorities and IMF staff estimates and projections.

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

[2] Non-tax iron sector revenue, including social contribution by the iron companies.

[3] Includes debt to IMF.

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

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

Table 3b. Liberia: Fiscal Operations of the Central Government, FY2013–18[1]

(Percent of GDP)

	FY2013	FY2014	FY2015			FY2016			FY2017	FY2018
	Est.	Est.	Third Review	RCF	Est.	Third Review	RCF	Proj.	Proj.	Proj.
Total revenue and grants	29.9	27.4	24.9	29.4	32.3	25.6	24.5	31.2	30.6	27.2
Revenue	27.5	23.5	22.3	20.9	22.4	22.8	21.9	22.5	23.1	24.1
Tax revenue	19.9	19.2	17.8	16.0	18.5	18.6	17.7	19.0	19.2	20.2
Non-tax	7.5	4.3	4.5	4.9	3.9	4.1	4.2	3.5	3.9	3.9
Grants	2.5	3.9	2.7	8.5	10.0	2.8	2.7	8.7	7.5	3.0
of which: Ebola-related grants	0.0	0.0	0.0	5.7	6.8	0.0	0.0	1.9	0.0	0.0
Expenditure and net lending	31.5	29.3	32.0	36.5	40.4	30.9	34.0	39.7	35.7	33.1
Current expenditure	26.6	24.3	19.7	26.6	31.8	19.9	22.7	29.2	27.5	25.4
Wages and salaries	11.4	10.0	9.6	12.0	12.4	9.6	10.3	12.3	11.6	11.2
of which: Ebola-related				1.6	0.8			0.3		
Goods and services	8.7	8.1	5.7	5.7	13.4	5.7	6.6	11.1	10.5	8.9
of which: Ebola-related					2.0			0.3		
Subsides and transfers	6.1	5.9	4.0	8.4	5.6	4.0	5.2	5.3	5.0	4.7
of which: Ebola-related				2.3	0.4					
Interest	0.3	0.3	0.4	0.5	0.4	0.6	0.5	0.5	0.5	0.6
Capital expenditure	4.9	5.0	12.3	9.9	8.6	11.0	11.3	10.5	8.2	7.8
of which: Mount Coffee	0.0	3.0	2.4	3.4	2.3	2.3	2.7	4.1	3.0	0.0
Foreign loans financed	0.7	1.9	7.0	2.7	3.6	6.5	5.5	4.0	3.4	4.2
Foreign grant financed	1.2	2.1	1.0	2.4	2.0	2.8	2.1	3.2	3.0	1.5
Domestically financed	3.0	1.0	4.3	4.7	3.0	1.7	3.7	3.4	1.9	2.1
Overall balance										
Including grants	-1.6	-1.9	-7.1	-7.1	-8.1	-5.4	-9.5	-8.5	-5.1	-6.0
Excluding grants	-4.0	-5.8	-9.7	-15.6	-18.1	-8.2	-12.1	-17.2	-12.6	-9.0
Identified financing	1.6	1.9	7.1	7.1	8.1	5.4	4.6	8.5	5.1	6.0
External financing (net)	0.4	2.2	6.7	5.1	5.7	5.8	5.1	6.9	5.5	5.8
Loans	0.7	2.4	7.0	5.4	6.0	6.5	5.5	7.1	5.6	6.0
of which: Ebola-related loans	0.0	0.0	0.0	2.5	2.4	1.2	1.4	1.8	0.0	0.0
Amortization (-)	-0.3	-0.3	-0.3	-0.3	-0.3	-0.7	-0.3	-0.2	-0.1	-0.2
Domestic financing (net)	1.2	-0.2	0.3	2.0	2.5	-0.5	-0.5	1.6	-0.3	0.2
Central Bank of Liberia	0.3	-1.5	0.0	2.7	3.0	0.0	0.0	2.2	-0.1	-0.1
Use of deposits	1.0	-1.1	0.0	0.6	-1.7	0.0	0.0	2.2	0.0	0.0
Gross borrowing	1.1	0.2	0.0	2.8	4.9	0.0	0.0	0.0	0.0	0.0
Amortization	-1.9	-0.6	0.0	-0.7	-0.2	0.0	0.0	0.0	-0.1	-0.1
Deposit money banks	0.7	0.9	0.4	0.0	-0.5	-0.4	-0.5	-0.6	-0.1	0.4
Treasury bill purchases (net)	0.3	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Other lending to government (net)	0.5	-0.3	0.4	0.0	-0.5	-0.4	-0.5	-0.6	-0.5	0.0
Other (including repayment of arrears)	0.1	0.4	-0.1	-0.7	0.0	0.0	-0.1	0.0	-0.1	-0.1
Financing gap (- deficit / + surplus)	0.0	0.0	0.0	0.0	0.0	0.0	-4.8	0.0	0.0	0.0
Memorandum items:										
Iron-ore related revenue [2]	2.1	1.5	2.0	1.1	1.1	2.3	0.9	0.8	0.8	0.8
Total public external debt [3]	10.5	13.2	21.9	23.6	22.9	25.6	28.2	29.3	32.8	36.3
Central government domestic debt [4]	16.7	15.1	13.9	13.9	14.5	12.0	12.7	12.9	11.9	11.0
of which: foreign currency denominated	16.0	14.1	13.4	13.3	13.5	11.6	12.2	12.4	11.5	10.6
Basic balance [5]	3.3	3.0	5.2	2.8	0.5	5.6	1.9	2.0	3.1	1.8
Current balance	0.9	-0.8	2.6	-5.7	-9.5	2.8	-0.8	-6.7	-4.4	-1.3
Primary balance, including grants	-1.2	-1.7	-6.7	-6.7	-7.7	-4.7	-9.0	-8.0	-4.7	-5.4
Fiscal year nominal GDP (mil. of U.S. dollars)	1,854	2,006	2,242	2,042	2,001	2,494	2,142	2,104	2,250	2,410

Sources: Liberian authorities and IMF staff estimates and projections.

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

[2] Non-tax iron sector revenue, including social contribution by the iron companies.

[3] Includes debt to IMF.

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

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

Table 4. Liberia: Monetary Survey, 2013–16

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

	2013	2014	Jun. 2015	Dec. 2015		2016
	Act.	Act.	Prel.	Third Review	Proj.	Proj.
(Central Bank Survey)						
Net foreign assets	204	175	190	223	195	199
CBL's gross foreign reserves	506	514	529	566	543	570
Commercial banks' US$ denominated deposits	113	102	106	136	104	109
CBL's gross official foreign reserves	393	411	423	430	438	461
CBL's net foreign exchange position[1]	237	179	160	253	181	213
Government US$ denominated deposits	44	91	123	22	102	72
Net domestic assets	-47	-23	-39	-84	-78	-49
Net claims on government	211	156	98	219	98	133
Claims on other public sector	0	0	0	0	0	0
Claims on private sector	2	3	4	3	3	3
Claims on commercial banks	28	29	34	28	27	27
Other items (net)	-288	-211	-175	-334	-207	-213
Monetary base (M0)	157	152	151	139	116	150
Monetary base (billions of Liberian dollars)	13	13	13	13	10	14
(Depository Corporation Survey)						
Net foreign assets	344	423	443	288	419	387
Net domestic assets	339	274	258	493	294	365
Net claims on government	223	186	130	256	131	156
Claims on public enterprises	23	23	25	20	21	20
Claims on private sector	358	378	389	488	412	454
Claims on nonbank financial institutions	1	2	2	1	1	1
Other Items (Net)	-267	-315	-290	-271	-272	-267
Broad money (M2)	682	697	700	781	713	749
L$ component	190	186	192	200	192	202
L$ Currency in circulation	100	101	88	94	106	111
L$ denominated deposits	90	85	104	106	86	90
US$ component (deposits only)	492	511	508	581	521	547
Memorandum items:						
Broad money (annual change)	7.6	2.1	17.5	8.6	2.2	5.1
L$ component as percent of broad money	2.5	-0.6	4.5	0.4	0.8	1.4
US$ component as percent of broad money	5.1	2.7	13.0	8.2	1.4	3.7
Monetary base (annual change)	-10.2	-3.3	7.5	-0.4	-23.6	28.9
Net credit to government (annual change)	4.3	-16.5	-37.4	1.4	-29.5	18.8
Credit to private sector (annual change)	28.7	1.0	6.2	13.5	15.1	16.9
Velocity (GDP-to-M2)	2.9	2.9	2.9	3.0	2.9	2.9
Money multiplier (M2/M0)	4.3	4.6	4.6	5.6	6.1	5.0

Sources: Liberian authorities and IMF staff estimates and projections.

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

Table 5. Liberia: Financial Soundness Indicators, 2012–June 2015

(Percent)

		2013		2014				2015	
	Dec-12	June	Dec.	March	June	Sept.	Dec.	Mar.	Jun.
Capital adequacy									
Regulatory capital to risk-weighted assets	22.7	25.0	24.9	20.5	21.4	23.6	20.3	23.8	18.0
Reported net capitalization	14.9	14.2	13.6	14.3	15.2	15.0	12.6	13.1	12.3
Asset quality									
Non-performing loans to total loans	24.9	18.8	14.8	14.5	15.5	16.3	18.7	18.5	19.2
Provisions to non-performing loans net of interest in suspense	49.0	55.3	54.2	73.3	57.4	64.4	61.1	62.9	62.5
Provisions to classified loans net of interest in suspense	44.0	46.5	45.5	52.5	38.9	44.3	51.8	47.7	51.9
Loan concentration (share of total)									
Agriculture	4.5	4.8	5.5	6.3	5.5	8.2	6.8	7.1	7.7
Mining and Quarrying	0.6	0.7	0.4	0.5	0.4	0.5	0.6	0.6	0.7
Manufacturing	1.5	1.6	1.4	1.9	1.9	2.4	1.9	2.2	2.7
Construction	6.9	9.6	10.8	15.6	15.3	17.1	17.2	16.5	17.5
Transportation, Storage, and Communication	7.1	5.9	8.4	8.5	8.2	8.3	7.4	7.6	8.6
Trade, Hotels, and Restaurants	44.0	42.8	40.0	45.2	42.7	41.6	43.8	43.9	42.0
Services	9.7	9.7	9.5	5.8	5.9	5.6	6.3	6.4	5.6
Personal	15.0	12.0	12.0	9.6	9.8	10.0	9.7	9.0	9.3
Government of Liberia	0.4	0.4	2.1	2.1	2.0	2.2	2.2	2.1	2.0
Public corporations	1.6	1.7	1.0	0.8	0.9	1.0	1.1	1.0	0.9
Others	8.6	10.6	9.0	3.7	7.2	3.3	2.8	3.5	3.0
Earnings and profitability									
Return on assets	-0.1	-0.7	-0.5	-0.4	-0.3	-0.5	0.1	-0.6	-1.0
Return on equity	-0.5	-5.3	-3.8	-2.6	-2.0	-3.4	1.0	-5.2	-8.1
Non-interest income to total income	55.3	57.9	55.5	48.9	51.5	51.2	51.0	50.9	47.0
Net interest margin over average assets	7.4	3.7	7.2	2.1	3.4	6.2	7.4	1.5	3.0
Liquidity									
Liquid assets to deposits and designated liabilities	45.9	40.2	36.1	25.4	41.6	45.9	50.4	44.9	41.8
Liquid assets to net assets	34.0	29.6	26.2	18.8	26.7	29.5	34.0	16.5	28.7
Net loans to deposits	43.0	46.8	51.8	51.7	58.4	56.5	50.4	50.8	50.7

Sources: Liberian authorities and IMF staff estimates.

Table 6. Liberia: Medium-Term Outlook, 2013–20

(Percent)

	2013	2014	2015	2016	2017	2018	2019	2020
	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change)								
National income								
Real GDP	8.7	0.7	0.3	3.9	5.3	5.6	6.1	7.7
Agriculture & fisheries	-0.3	-3.7	-1.1	1.4	3.3	6.1	7.5	7.2
Forestry	0.5	2.2	2.0	2.0	3.0	4.0	5.0	5.0
Mining & panning	49.6	3.3	-17.0	-0.9	9.1	1.4	1.2	24.9
of which: Iron ore	56.8	1.0	-30.8	-20.3	0.9	0.0	-0.4	44.7
of which: Gold	3.2	2.3	150.0	70.0	25.0	3.0	3.0	3.0
Manufacturing	9.2	-0.7	6.1	11.3	10.5	10.3	8.9	6.8
Services	7.2	2.3	5.0	5.6	5.1	5.8	6.3	5.0
Real GDP excluding mining sector[1]	4.2	0.3	3.0	4.6	4.9	6.1	6.7	5.8
Nominal non-mining per capita GDP (U.S. dollar)	404	438	456	477	499	529	568	608
Prices								
GDP deflator	3.4	1.9	1.7	1.1	1.8	2.7	3.3	2.9
Consumer prices (annual average)	7.6	9.9	7.8	8.0	7.9	7.5	7.2	7.4
Consumer prices (end of period)	8.5	7.7	8.0	8.1	7.8	7.1	7.3	7.5
Population (millions)	4.1	4.2	4.3	4.4	4.5	4.6	4.7	4.8
(Percent of GDP, fiscal year)								
Central government operations								
Total revenue and grants	29.9	27.4	32.3	31.2	30.6	27.2	28.1	28.4
Total revenue	27.5	23.5	22.4	22.5	23.1	24.1	25.1	25.5
Grants, including Ebola-related support	2.5	3.9	10.0	8.7	7.5	3.0	2.9	2.9
Total expenditure and net lending	31.5	29.3	40.4	39.7	35.7	33.1	33.2	32.9
Current expenditure	26.6	24.3	31.8	29.2	27.5	25.4	25.1	24.5
Capital expenditure	4.9	5.0	8.6	10.5	8.2	7.8	8.1	8.4
Overall fiscal balance, including grants	-1.6	-1.9	-8.1	-8.5	-5.1	-6.0	-5.1	-4.5
Overall fiscal balance, excluding grants	-4.0	-5.8	-18.1	-17.2	-12.6	-9.0	-8.0	-7.4
Public external debt	10.5	13.2	22.9	29.3	32.8	36.3	38.3	38.6
Central government domestic debt	16.7	14.1	14.5	12.9	11.9	11.0	9.6	8.3
(Percent, unless otherwise indicated)								
M2/GDP	34.8	34.6	34.7	34.7	34.5	33.9	33.3	32.8
Private sector credit/GDP	18.3	18.8	20.1	21.0	21.7	21.7	22.3	23.9
Velocity (GDP-to-M2)	2.9	2.9	2.9	2.9	2.9	3.0	3.0	3.0
Money multiplier (M2/M0)	4.3	4.6	6.1	5.0	4.3	3.4	3.0	3.5
(Percent of GDP, unless otherwise indicated)								
External sector								
Current account balance								
including grants	-28.2	-31.4	-39.2	-36.9	-34.4	-32.7	-31.8	-32.5
excluding grants	-77.5	-94.0	-86.5	-76.8	-57.7	-54.6	-52.2	-51.2
Trade balance	-23.5	-36.8	-41.0	-36.6	-31.0	-28.1	-29.1	-24.9
Exports	28.5	21.7	12.6	12.2	12.1	12.0	11.6	12.4
Imports	-52.0	-58.5	-53.6	-48.8	-43.2	-40.1	-40.7	-37.4
Grants (donor transfers, net)	49.2	62.6	47.3	40.0	23.3	21.9	20.4	18.7
Gross official reserves (millions of U.S. dollars)	393.1	411	438	461	509	583	641	691
Months of imports of goods and services[2]	2.4	2.5	2.7	2.8	3.0	3.4	3.5	3.4

Sources: Liberian authorities and IMF staff estimates and projections.

[1] Chained weighted sectoral average growth rate.

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

Table 7. Liberia: Risk Assessment Matrix[1]			
Sources	**Likelihood**	**Potential Impact**	**Policies to Minimize Impact**
External			
Structurally weak growth in key advanced and emerging markets and sharp growth slowdown in China	Medium	Slow growth in advanced and emerging economies might hit the Liberian economy via low prices and demand of key exports (iron and rubber).	Accumulate international reserve buffers. Diversify the structure of the economy and export markets.
Domestic			
Worsening of security conditions following the UNMIL withdrawal	Medium	A possible security vacuum triggered by the UNMIL would undermine investor and consumer confidence and slow down economic activity.	Ensure smooth transition from UNMIL to national security system.
Wider re-emergence of Ebola disease	Medium	Socio-economic recovery process would be delayed, depressing growth and worsening the living standards of vulnerable groups.	Continue efforts to fight the disease, including ensuring continued communities' engagement, and strengthen health and social protection systems.
Weak policy implementation	Medium	Possibly under the stress from a worsening of the security or health situation, implementation of PFM measures, fiscal discipline, and exchange rate policy may be undermined.	Front-load policy implementation

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Table 8. Liberia: Indicators of Capacity to Repay the Fund, 2015–25

(Millions of SDRs, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Projections										
Prospective drawings based on existing and prospective credit	39.7	14.8	-	-	-	-	-	-	-	-	-
ECF[1]	7.4	14.8	-	-	-	-	-	-	-	-	-
RCF[2]	32.3										
Charges and interest											
Total obligations based on existing and prospective credit[2]	0.0	0.0	0.0	2.1	10.7	22.5	26.1	23.8	21.9	18.9	5.5
Repayments and repurchases	0.0	0.0	0.0	2.1	10.5	22.3	25.9	23.7	21.8	18.8	5.5
ECF-current	0.0	0.0	0.0	2.1	10.5	16.8	15.0	12.8	10.9	7.9	0.0
ECF-projected	0.0	0.0	0.0	0.0	0.0	2.2	4.4	4.4	4.4	4.4	2.2
RCF-projected	0.0	0.0	0.0	0.0	0.0	3.2	6.5	6.5	6.5	6.5	3.2
Interests	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.1	0.1	0.0	0.0
ECF-current	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.1	0.0	0.0	0.0
ECF and RCF-projected	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of											
GDP	0.0	0.0	0.0	0.1	0.6	1.1	1.1	1.0	0.8	0.6	0.2
Gross official reserves	0.0	0.0	0.0	0.5	2.4	4.7	5.0	4.2	3.6	2.9	0.8
Exports of goods and services	0.0	0.0	0.0	0.5	2.4	4.6	4.5	3.7	3.0	2.4	0.6
Fiscal revenue (excluding grants)	0.0	0.0	0.0	0.5	2.2	4.2	4.4	3.8	3.2	2.6	0.7
Outstanding Fund credit[1]	115.7	130.5	130.5	128.4	117.9	97.9	74.2	50.5	28.7	9.9	2.2
In percent of											
GDP	7.9	8.6	8.0	7.3	6.2	4.6	3.2	2.0	1.1	0.3	0.1
Gross official reserves	37.0	40.0	36.5	31.5	26.5	20.4	14.2	9.0	4.7	1.5	0.3
Exports of goods and services	24.9	29.3	32.1	30.5	26.9	20.0	12.8	7.9	4.0	1.2	0.3
Fiscal revenue (excluding grants)	35.3	37.2	33.8	29.7	24.3	18.1	12.6	8.1	4.3	1.4	0.3
Quota	89.6	101.0	101.0	99.4	91.3	75.8	57.4	39.1	22.2	7.6	1.7

Sources: Liberia Finance Department and IMF staff estimates.

[1] Disbusment schedule of ECF arrangement was rephased, reflecting the delay in completing the fourth review.

[2] RCF of SDR32.3 million was approved in February 23, 2015 by the Executive Board.

Table 9. Liberia: Schedule of Disbursements Under the ECF and RCF Arrangements, 2012–16

Amount (Total: SDR 83.98 million)	Date of Availability[1]	Conditions for Disbursement[2]
SDR 7.382 million	November 19, 2012	Executive Board approval of the three-year ECF arrangement
SDR 7.382 million	July 3, 2013	Executive Board completion of the first review under the three-year ECF arrangement
SDR 7.382 million	December 11, 2013	Executive Board completion of the second review under the three-year ECF arrangement
SDR 7.382 million	July 3, 2014	Executive Board completion of the third review under the three-year ECF arrangement
SDR 32.300 million	September 26, 2014	Executive Board approval of augmentation of access of 25 percent of quota under an ad hoc review
SDR 32.300 million	February 23, 2015	Executive Board approval of access of 25 percent of quota under a Rapid Credit Facility
SDR 7.382 million	November 15, 2014	Executive Board completion of the fourth review under the three-year ECF arrangement
SDR 7.382 million	March 30, 2016	Executive Board completion of the fifth review under the three-year ECF arrangement
SDR 7.388 million	September 30, 2016	Executive Board completion of the sixth review under the three-year ECF arrangement

Source: IMF staff estimates.

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

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

Appendix I. Letter of Intent

Monrovia, December 3, 2015

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C.

Dear Madame Lagarde,

In March 2014, Liberia was hit by the unprecedented outbreak of the deadly Ebola Virus Disease (EVD). The outbreak permeated the social and economic fabric of our country, significantly undermining our economic activities and thwarting our medium-term development program—the Agenda for Transformation (AfT). However, the measures put into place, including actions aimed at preventing and controlling infection rates, increasing community engagements and ensuring safe burials, as well as the support of our development partners and the international community, have led to successful containment of the epidemic. On September 3, 2015 our country was declared Ebola free for the second time by the World Health Organization (WHO). Liberia became the first of the three most-affected countries in West Africa to have been declared Ebola free after more than a year of battling the epidemic, even though more recently there have been a few isolated cases. We are grateful to the IMF for the financial support it provided to Liberia during the crisis for a total of US$130 million through an ad-hoc augmentation under the ECF, disbursement under the Rapid Credit Facility (RCF), and debt relief under the Catastrophe Containment and Relief (CCR) Trust.

The economic impact of Ebola has been compounded by the steep decline in commodity prices. Prior to the outbreak, our country had been growing at about 8 percent on average since 2011, domestic institutions were being re-built and social and health indicators were improving. However, the epidemic weakened activity in all sectors of the economy, with real GDP growth declining from close to 8½ percent in 2013 to 0.7 percent in 2014. As the country embarked on the road to recovery in 2015 after the devastating Ebola crisis, it is being further confronted by the sharp decline in prices of our major exports, namely iron ore and rubber. As a result, planned investments in the mining sector have been put on hold by existing mining operators. A prolonged period of low commodity prices would significantly undermine our tax and export revenues, and could significantly weaken our medium term growth prospects.

We remain fully committed to the objectives set under our ECF-supported program, although the Ebola outbreak weakened our capacity and led to delays in program implementation. Taking into account the extremely challenging context, looking back to June and December 2014, our performance remained broadly satisfactory. We met most of the end-June 2014 quantitative performance criteria (PCs) and indicative targets (ITs) except the floor on government revenues, net foreign exchange reserves position, and the ceiling on net domestic assets of the central bank. We missed the floor on government revenues owing to shortfalls in tax and nontax revenues. The floor on net foreign exchange position was missed following a placement of reserves with a domestic bank. Nonetheless, revenue performance improved markedly in FY2015 in part with the establishment of the Liberia Revenue Authority (LRA) on July 1, 2014. We met only two out of seven end-December 2014 PCs due to the Ebola outbreak. We met three out of seven structural benchmarks (SB) (payroll cleanup, publication of FY2016 budget calendar, and pilot on integration of credit-financed projects into the Integrated Financial Management Information System (IFMIS)), whereas the SBs on enhancing cash and liquidity management, strengthening the quality of national accounts and submitting the insurance law were completed but with a delay.

Our policy priorities over the next two years will be shaped by the Economic Stabilization and Recovery Plan (ESRP) and the re-prioritized actions from the AfT. The objective of the ESRP is to enable a faster recovery, improve public services delivery, and address resilience gaps brought to the fore by the Ebola crisis, in line with our medium term development agenda. For the FY2016, we will focus our efforts on supporting the post-Ebola recovery, and we will incorporate same in our budget key ESRP projects. In particular, we plan to increase health and education spending substantially, as these sectors have been severely impacted by the Ebola crisis.

The government remains committed to improving public financial management. The GAC audit report on Special Procurement of the Ministry of Public Works for Construction of Roads and Bridges throughout Liberia was published June 2015. In addition, the government is developing a time bound action plan to implement the recommendations of the GAC audit.

Monetary policy will continue to aim at containing inflation while maintaining an adequate reserves buffer. The Central Bank of Liberia (CBL) will continue to issue CBL notes to manage Liberian dollar liquidity. In addition, steps are being taken to strengthen liquidity management by enhancing coordination between the Central Bank and the Ministry of Finance and Development Planning which include the joint preparation of monthly liquidity forecasts. The Government, operating within the scope of available fiscal space which is susceptible to falling commodity prices and has hardly recovered from the impact of the Ebola crisis, will continue to make sales of US dollars to the CBL to enable it continue intervention in the foreign exchange market to smooth out exchange rate volatility taking into account the need to accumulate adequate reserves.

We remain committed to implementing the recommendations of the safeguards assessment mission. The CBL will develop a 3-year action plan to strengthen the operational efficiency of the CBL. In addition, we will update the CBL's investment guidelines in order to ensure the safety and liquidity of the CBL's international reserves.

We will continue to ensure that our financial system remains on a solid footing. The weak economic activities resulting from the Ebola outbreak affected the performance of the banking system which led the Central Bank to take measures to minimize the impact of the crisis. The CBL will conduct a detailed assessment by the end of 2015 in order to determine the impacts of these policy measures. In the meantime, we will conduct high frequency monitoring of bank liquidity to preserve confidence in our financial system. The CBL is also developing a framework for crisis preparedness and management with technical assistance from the IMF.

On the basis of the performance registered in implementing the economic program and on the strength of our future policy commitments, we request that the fourth review under the ECF arrangement be completed and a disbursement in the amount of SDR 7.382 million be approved. In completing the fourth review, we are requesting the following: (i) the extension to December 31, 2016 and re-phasing of the program with new fifth and sixth review targets to be set for end-December 2015 and end-June 2016; (ii) waivers for the missed PCs on the floor on total revenue collection of the central government and the net foreign exchange position of the CBL; and (iii) the replacement of the PC on zero non-concessional borrowings and the IT on public external borrowing with a new performance criterion on the present value of newly contracted external borrowings, in line with the new debt limit policy.

We believe that the economic and financial policies described in the MEFP of November 19, 2012, its subsequent supplements, together with the attached supplementary MEFP provide an adequate basis for achieving our macroeconomic objectives. However, we did not meet agreed targets primarily attributable to the Ebola crisis and falling commodity prices. Consequently, to enhance our ability to meet the targets and achieve these objectives, 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 this attached MEFP, in accordance with the Fund's policies on such consultation. The government will also provide the Fund staff with all the relevant information required to complete program reviews and monitor performance on a timely manner as outlined in the TMU.

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

Sincerely yours,

__/s/__

Hon. Amara M. Konneh
Minister of Finance and Development Planning
Ministry of Finance and Development Planning

__/s/__

Dr. Joseph Mills Jones
Executive Governor
Central Bank of Liberia

Attachment I. Memorandum of Economic and Financial Policies

INTRODUCTION

1. **On November 19, 2012, the IMF's Executive Board approved a three-year arrangement under the Extended Credit Facility (ECF) in support of Liberia's economic reform program**. The program includes critical steps and policy reforms to achieve macroeconomic stability and promote broad-based economic growth. This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and performance under the Extended Credit Facility (ECF) arrangement. It also updates macroeconomic policies and targets for the remaining of 2015 and for 2016.

BACKGROUND AND RECENT DEVELOPMENTS

2. **Liberia has largely defeated the Ebola epidemic**. The country was declared Ebola-free by the World Health Organization (WHO) on September 3, 2015, even though there have been a few new cases in the Monrovia suburbs.[1] In addition to the large-scale international response to the crisis, this success is the result of the effective implementation of policy measures aimed at getting to and maintaining zero new infections by the Government of Liberia. These measures included appropriate actions aimed at: controlling and preventing infection rates; deepening community engagement in the containment of the virus; ensuring safe and dignified burial of victims; improving active surveillance; enhancing sub-regional coordination among the three affected nations; and providing mental and psychosocial services for survivors and family members of victims. However, to sustain a zero Ebola infection rate, the Government of Liberia is working with its counterparts in Guinea and Sierra Leone in designing strategies aimed at containing the further spread of the virus (e.g., enhanced border surveillance). The three most affected countries are also working together to stimulate economic activities across the sub-region.

3. **The economic impact of the Ebola outbreak has been far-reaching, affecting all sectors of the economy and delaying implementation of our medium-term development program, *the Agenda for Transformation***:

- **Economic growth**. Real GDP growth is estimated to have declined from 8.7 percent in 2013 to 0.7 percent in 2014 owing to a sharp decline in agriculture (particularly domestic food production), mining, and services, as a result of the Ebola outbreak. Diamond and cocoa production in the first half of 2015 was higher than in the first half of 2014, whereas rubber, iron ore, and cement production remained below 2014 levels.

- **Inflation and exchange rate.** After increasing to 13.5 percent in September 2014, inflation declined to 6.5 percent (year-on-year) in September 2015 owing to low food and energy prices. Stepped up intervention by the CBL helped contain the depreciation of the Liberian

[1] The WHO issued its first Ebola-Free Declaration on May 9, 2015. In June 2015, however, a few isolated cases were confirmed. The WHO declared Liberia Ebola-free again on September 3, 2015.

dollar at 6.8 percent between December 2014 and August 2015, thereby limiting the impact on inflation and the purchasing power of the poorest segments of the population. International reserves have been hovering around 2.7 percent of essential imports since the first quarter of 2015.

- **Public finances**. Fiscal policy in FY2015 was expansionary. Tax revenue collection exceeded the budget target by about 12⅔ percent due to improve compliance stemming from the establishment of the Liberia Revenue Authority (LRA), even though the Ebola epidemic had a significant negative impact on tax revenue collection from mining and telecommunications. Expenditure was significantly scaled up but the execution of the public investment program was delayed by the late approval of the FY2015 budget and the impact of the crisis which further constrained implementation capacity. The overall fiscal balance for FY2015 was a deficit of US$163 million (8.1 percent of GDP) compared to $39 million (1.9 percent of GDP) in FY2014.

- **Balance of payments**. The current account worsened from 28.2 percent of GDP in 2013 to 31.4 percent of GDP in 2014 as exports declined sharply due to the crisis but also by the abrupt and continue fall in commodity prices, which were partially offset by higher Ebola-related current transfers. Preliminary data suggest a significant further deterioration of current account; driven by around 50 percent drop in the value of iron ore and rubber exports (y/y) through July 2015.

- **Financial sector**. Non-performing loans as a percent of total loans reached 19.3 percent in July 2015 compared to a 15 percent in July 2014. This uptick reflected the slowdown in economic activity which also affected credit supply. Credit to the private sector is recovering in 2015 but the high NPLs could negatively impact the pace of recovery.

PERFORMANCE UNDER THE PROGRAM

4. **Program performance through end-June 2014 was mixed**. All end-June 2014 performance criteria (PCs) except the revenue floor and the net foreign exchange position of the CBL were met. The revenue floor was missed by US$22 million, owing to shortfalls in tax and non-tax collection. Nonetheless, revenue performance improved markedly in part with the establishment of the Liberia Revenue Authority (LRA) on July 1, 2014. The floor on the net foreign exchange position was missed since a placement of €47 million with a domestic commercial bank, incorrectly reported as part of end-June 2014 gross reserves, does not technically count as a reserve asset. The operation was reversed in August 2015.

5. **The government also met all indicative targets for end-June 2014 with the exception of the ceiling on net domestic assets (NDA)**. The NDA target was missed owing to a decline in commercial banks' U.S. dollar required reserves at the CBL following the reduction of the statutory requirement from 22 to 15 percent in April 2015. Regarding end-December 2014 performance, the government met only two out of seven PCs due to the Ebola outbreak.[2] The indicative target on

[2] Domestic borrowing of the central government exceeded the end-December 2014 ceiling because of the disbursement under the ECF augmentation via the Central Bank of Liberia.

gross external borrowing was also missed because of earlier-than-anticipated ratification of a US$144 loan from India Exim Bank to finance an electricity transmission and distribution project.

6. **Implementation of our structural reform agenda has been delayed by Ebola outbreak, though we nonetheless achieved important milestones**:

- The government met three out of seven structural benchmarks (SB) for end-March 2014 and end-June 2014 namely, payroll cleanup, publication of FY2016 budget calendar, and pilot on integration of credit-financed projects into IFMIS. However, the SBs on enhancing cash and liquidity management, strengthening the quality of national accounts, and submitting the insurance law were completed but with a delay. All end-December 2014 structural benchmarks were missed because of the Ebola outbreak.

- Improvements have been made in cash management through the setting up of an institutional framework, the drafting of new cash management guidelines, the development of consolidated cash planning and reporting templates and operation of the Treasury Single Account (TSA) arrangement under which government bank accounts resident at the Central Bank of Liberia have been amassed under a single account for better and improved cash management. Discussions are being held on the possibility of identifying and linking government bank accounts at commercial banks to the TSA. Capacity building needs in the unit have been identified, and government and Development Partners including the IMF are committed to supporting training and to providing other technical assistance programs for the unit.

- Other reforms undertaken include the roll out of IFMIS to 17 additional Ministries and Agencies (M&As) to support PFM Operations. This has increased the number of M&As that are now connected to IFMIS to 36. The quality of internal audit functions has also improved with a transition to a risk-based audit methodology (rather than transaction-based). Progress has also been made in revising the PFM Law. An issues and options paper to amend the PFM Law was developed and a report to the proposed changes to the PFM Law has been submitted to the government for review. The Government is committed to finalizing the review of the draft amendments and submitting a bill to the Legislature in FY2016 for enactment.

OBJECTIVES OF ECONOMIC AND FINANCIAL POLICIES FOR 2015–16

Policy priorities for the Government over the next two years will be shaped by the Economic Stabilization and Recovery Plan (ESRP) and the re-prioritized actions from the Agenda for Transformation. This will include the resumption of major public investment projects in infrastructure, agriculture, education, health, private sector development, and security.

7. **The macroeconomic outlook remains challenging**. Growth is projected to remain weak at 0.3 percent in 2015, with a gradual recovery taking hold in 2016 largely driven by the gold sector and a rebound in services. The expected protracted weakness in global commodity prices is likely to contribute to a further decline in exports, tax revenue, and value-added in the mining sector, and dent medium-term growth prospects as new investments are being delayed or cancelled. Therefore,

over the medium term, our baseline projections envisage annual average growth in 2016–18 to decline from 8¾ percent pre-crisis to about 4.9 percent. Inflation has increased to 7.3 percent and is expected to remain at around 8 percent in 2015–16 as depreciation pressures dampen the impact of lower international oil prices.

8. **Risks to the outlook are tilted to the downside**. Liberia's containment measures have been highly effective, owing to successful early identification and isolation of this last case, and contact follow-up, even though isolated cases are still possible, as demonstrated recently. However, while the epidemic has for now largely been contained in the region, a wider-scale recurrence may also be possible particularly in light of the porous borders. A recrudescence of the Ebola virus would dampen the recovery, particularly by deterring investment activity. Slower-than-projected growth prospects for emerging markets and China could further depress commodity prices and lead to further delays and cancellation of planned mining and rubber investments. The withdrawal of UNMIL could pose security risks, which could however be gradually mitigated by the full implementation of the government's security sector transition plan.

A. Fiscal Policy

9. **In FY2015, the government focused fiscal policy on the fight against Ebola**. The government's measures included spending on social welfare services, such as feeding of patients in health facilities, including Ebola Treatment Units (ETUs), as well as providing security, safe drinking water and sanitary supplies to quarantined communities. In order to balance this increased expenditure demand and to ensure proper fiscal management, the government cut back on non-essential spending by placing a moratorium on all non-essential purchases, such as vehicles and office supplies, reducing fuel and lubricant expenditure by 25 percent and limiting non-essential foreign and domestic travels. Maintaining government spending has been critical to supporting demand in the economy and preventing further collapse in confidence and general business activity.

10. **The implementation of the domestically-financed Public Sector Investment Program (PSIP) was impacted by the delayed approval of the FY2015 budget and the onset of the crisis**. However the government prioritized investment spending through the crisis period to stimulate the economy.

11. **As a result of this effort, government spending was scaled up significantly during the crisis**. Total government spending (on a cash basis, including off-budget items) increased from 29 percent of GDP in FY2014 to 40 percent of GDP in FY2015, largely financed by external grants and concessional loans. Total domestic revenue collection for FY2015 amounted to US$437 million, about 4.8 percent above our revised FY2015 budget target, as higher tax collection was partly offset by a decline in non-tax revenue. In addition, our development partners provided a total of US$206 million in budget support, of which US$183 million in additional financing for the Ebola crisis. For the fiscal year, the overall fiscal deficit amounted to US$163 million or 8.1 percent of FY2015 GDP.

12. **The FY2016 budget approved by the legislature in September 2015 maintains a broadly accommodative fiscal stance**. Total spending (on a cash basis, including off-budget items) is projected to increase by 3.2 percent from FY2015 due mainly to an increase in capital expenditure. The total resource envelope for FY2016 budget is US$623 million (see Text Table 1). Our priorities for the year will be to support the post-Ebola recovery, and we have incorporated in our budget key ESRP projects under our three intervention pillars, namely social sectors, infrastructure, private sector support and agriculture. In particular, we have increased health and education spending substantially (by about US$2.6 million and US$15.8 million, respectively or 0.1 and 0.8 percent respectively of FY2016 GDP), as these sectors have been severely impacted by the Ebola crisis.

Text Table 1. FY2015 and FY2016 Budget
(Millions of U.S. dollars)

	FY2015				FY2016
	Pre-Ebola Budget (Jul. 2014)	Approved Budget (Nov. 2014)	Actual Outturn (Commitment)	Actual Outturn (Cash)	Approved Budget (Sep. 2015)
Total revenue and grants	531	527	497	497	540
Total revenue	504	417	437	437	474
Tax revenue	415	339	382	382	412
Non-tax revenue	89	78	55	55	61
Grants	27	109	60	60	66
Total expenditure	535	609	599	594	605
Current expenditure	439	512	546	540	539
Capital expenditure	96	97	54	54	66
Overall balance	-4	-82	-102	-96	-65
Financing	4	82	102	96	65
Borrowing	28	109	146	146	59
of which: IMF		48	94	94	-
Amortization (-)	-24	-26	-22	-22	-18
Deposit in CBL (-)	0	0	-22	-28	24
Memorandum					
Budget resource envelope	559	635	643	643	623
Off-budget expenditure	179	190	215	215	225
of which: Loan financed	158	134	79	79	108
Commitment carryover					6
Unexecuted Ebola spending				12	-12
Overall balance, incl. off-budget items	-162	-217	-181	-163	-178

13. **The government will intervene to support the commodity-exporting sector to alleviate the impact of the decline in world prices, given its importance in the Liberian economy**. Among the support measures, the government is considering postponing the collection of taxes, royalties, and social contributions due in FY2016 to the next fiscal year. Any relief will be temporary, transparent, and publicly announced. The government will also determine the cost to the budget of these measures, and commit to find compensating revenues or undertaking expenditure cuts.

14. **The government's Economic Stabilization and Recovery Plan (ESRP) is designed to enable a faster recovery and address resilience gaps highlighted by the crisis**. The three-year plan articulates the spending needed to bring the country back in line with the path laid out in the Agenda for Transformation. However, notwithstanding the resources we intend to allocate to ESRP interventions, our Recovery Plan remains vastly under-funded. We are seeking donor and private sector financing of the measures included in the ESRP totaling US$812 million by FY2017, which includes US$438.8 million for our comprehensive plan to rebuild the health sector.

B. Structural Fiscal Policies

15. **We are following up on the conclusions of the GAC audit report on Special Procurement of the Ministry of Public Works for Construction of Roads and Bridges throughout Liberia which was published June 2015.** The audit highlighted severe deficiencies in spending controls and we remain committed to resolving these problems. In order to maintain

liquidity in the banking sector during the Ebola crisis, we were unable to maintain our previous commitment under the program to suspend further payments to contractors for contracts being audited until the GAC audit would be finalized. However, payments for a total of US$26.8 million were made directly to banks that were exposed to contractors and only for contracts that were fully executed and had evidence of works completed (Certificate of Completion). Based on updated information from the Ministry of Public Works, the amount outstanding under these contracts as of October 1, 2015 is US$46 million (Text Table 2). Furthermore, we have included in the draft FY2016 budget only amounts assessed by the GAC audit as legitimate liabilities of the government, or a total of US$23 million, for works already completed.

Text Table 2. Unfunded Road Commitment
(Millions of U.S. dollars)

Size of unfunded commitment	92
Amount paid	47
FY2014	15
FY2015	32
Outstanding	46
FY2016 budget allocation	23
FY2017 payment	23

Source: Liberian authorities.

16. **The government will develop a public action plan to implement the PFM weaknesses underlined in the GAC audit report**. This action plan will be shared with major stakeholders for their inputs (*prior action*) before finalization and will include:

- Review of the PFM Act (with the support of FAD) to improve compliance of ministries and agencies to the Act and the Public Procurement and Concessions Act, including review and amendment to the existing sanction provisions in PFM and public procurement and concessions Act;
- Application of the criteria for sole sourcing according to section 55(1) of the PPC Act 2010 and the internal audit unit in respective ministries;
- Establishment and staffing of a project evaluation function in the Public Investment Unit of MFDP;
- Submission of economic and financing analyses of all new PSIP projects in the FY2017 budget to the Minister of Finance and Development Planning (*structural benchmark*);
- Development of a multi-year implementation schedule for existing multi-year projects;
- Establishment of domestically-financed public investment project database (*structural benchmark*);
- Expansion of the existing externally-financed public investment project databases to cover cost overrun, project implantation delay, and payment arrears (*structural benchmark*);
- Launch of a regular donor meeting to collect necessary information to update the database (*structural benchmarks*);
- Extension of the coverage of IFMIS to part of the externally-financed projects (15 by end-December 2015 and additional 10 projects by end-June 2016—*structural benchmarks*); and
- Assess the current practices of public investment management and develop an action plan to reform the current system.

Ahead from these actions, the Ministry of Finance and Development Planning established the aid flow database covering all externally-financed public projects. The database allows us more closely monitor the progress of public projects financed by both external grants and loans.

17. **More broadly, the government continues to make significant efforts in it PFM reform implementation programs to improve budget credibility, financial accountability, transparency and reporting**. Below are key areas where Government has made some marks in public financial management:

- ***Credible and comprehensive budgeting***. The Department of Budget and Development Planning is continuing with the preparation of Medium-Term Expenditure Framework (MTEF) budgeting. The department has finalized the MTEF manual to guide the preparation and implementation of the Budget. A Budget Working Group was set up within the MFDP to drive the budget preparation process and to collaborate with various budget committees in M&As and other key stakeholders to facilitate the early preparation of the budget. The Department [has embarked] on intensified MTEF training to cover all technicians involved in the budget process between last quarter of 2015 and second quarter of 2016.

- ***Robust IT systems to support PFM operations***. The Ministry of Finance and Development Planning (MFDP) is deepening the implementation of IFMIS to support PFM operations. The Ministry intends to roll out IFMIS to 60 M&As by 2017, from 36 at present. IFMIS is helping to improve budget execution, timely reporting and enhanced compliance with basic controls. Feasibility studies are underway to use the IFMIS framework for budget development as a means to ensuring timely completion and submission of the draft budget. The Ministry has also completed the review of the business processes for enhanced expenditure and cash management within the GoL, and the implementation of the stringent security policies over the management of the GoL IFMIS application and database. An Information and Communication Technology (ICT) policy was also approved by the Ministry and is currently operational.

- ***The use of country systems***. The government is committed to bringing all donor-financed projects on IFMIS to enhance consolidated accounting and reporting. The government has for the first time commenced accounting for and reporting on donor-financed projects (an initial amount of 15 projects) within the Ministry's Projects Financial Management Unit (PFMU) using the Free Balance-based IFMIS. The existing legacy system, Sun Systems, will be shut down permanently and PFMU has been systematically subsumed under the Office of the Comptroller and Accountant General (CAG with effect from July 2015.

- ***Enhanced transparency and accountability in PFM***. The Legislative Budget Office and the Public Accounts Committee (PAC) of the National Legislature are now fully functional and most of their operations are being supported through allocations in the national budget. The PAC has released a number of reports on the Auditor General's audit reports of M&As, and five of these reports have been submitted to the president. The Presidency is expected to require implementation of the PAC recommendations for the M&As.

- ***The State Owned Enterprise (SOE) Financial Reporting Unit has consistently reported the fiscal performance by the SOEs***. The Unit is also building capacity within the SOEs for fiscal reporting. The regular interaction and monitoring by the unit has helped improved the performance of SOEs and contributed to the reduction of government's subventions to these SOEs by approximately 53 percent. This is specific to the eight 8 largest SOEs. Dividend contributions by these entities have been increasing. The government will continue to provide the requisite support to strengthen the unit.

- ***Enhanced Controls and Respect of the PFM legal framework***. The government has been consistently rolling out internal audit functions in various M&As. Internal Audit functions are being implemented in 40 M&As. The Internal Audit Agency (IAA) has started moving towards a risk-based audit methodology so as to ensure that more resources and reform efforts are directed towards entities that are categorized as 'high-risk' in government. The Agency continues to track audit findings and recommendations from external and internal auditors.

- ***Treasury Management***. The government has established a new Cash Management and Financial Approvals Unit with mandate to improve cash planning, forecasting and cash management. A draft cash management framework is now in place and development partners continue to provide technical support to the unit. The new framework will be instituted in July 2015. The unit will also help to enhance the adoption of the proposed Treasury Single Account framework as its reports will inform the smooth and productive operation of the consolidated account. The MFDP is also working in consultation with the Central Bank of Liberia on ways to improve the management of the TSA.

18. **The government believes that further improvements in public financial management (PFM) are critical to ensuring the quality of spending as well as transparency and accountability in the use of public resources**. In this direction, the government undertakes to:

(i) Implement concrete measures to improve public investment planning and execution, focusing on ensuring adequate prioritization, value-for-money and quality of service delivery, including a list of donor financed projects captured by the Aid Management Unit in the FY2016 budget annex, and submission of spending and procurement plans of all M&As for FY2017 (*structural benchmark*) to the PPCC by end-June, 2016. We will also ensure that new domestic projects be fully reflected in the budget (together with any related new debt), be subject to economic and financial analysis before approval, and follow our procurement procedures, regardless of the modality of their financing. For urgent projects proposed after approval of the budget law, we will issue a supplemental budget or seek appropriate legislative consent after the appropriate economic and financial assessments are conducted.

(ii) Maintain ongoing efforts to enhance budget credibility and transparency, including by publishing online quarterly budget execution reports, identifying additional Ebola related expenditure, within 8 weeks of the end of each quarter.

(iii) Continue to improve cash and liquidity management and move towards full implementation of the Treasury Single Account (TSA). In particular, we intend to start the monthly reporting and consolidation of the balances of the M&As accounts at the BDL and commercial banks (*structural benchmark*) and complete the pilot phase of the TSA with zero-balance accounts at the CBL for all Ministries and Agencies.

(iv) Publish quarterly report on financial performance of SOEs (*structural benchmark*). This will improve transparency of SOE activities and strengthen monitoring of public sector contingent liabilities and total public sector borrowing.

19. **The government also undertakes to prepare a medium-term roadmap for PFM reforms**. The road map will include: submission of cash and procurement plans by all ministries and agencies to the MFDP; establishment of the project implementation function in five key ministries; introduction and implementation of effective sanction for payments without appropriate documents; separation of the Comptroller-General function from the Ministry of Finance and Planning; and the development of clear criteria for sole sourcing.

20. **The LRA has been operational since July 2015**. The MFDP under the integrated public financial management reform program (IPFMRP) will support the LRA in developing robust revenue management systems including driving the roll-out of the core modules (covering all categories of taxpayers and tax kinds) of the SIGTAS as well as conducting a forensic systems review of the ASYCUDA. Measures to support the LRA are needed to sustain the positive trend in tax revenue collection. Capacity development in the natural resource sector revenue management, innovation and expansion of automation of the tax administration system to include single windows and a comprehensive staff integrity management program are needed to continue the improvement domestic revenue collection and transparency. The LRA is in the process of developing its 5-year strategic plan that will set the agenda for further reforms in tax administration. This will lead to the creation of a modern LRA through its people, processes, and use of technology, the optimization of revenue collection through fair and transparent enforcement of tax laws and the maximization of voluntary compliance and improved service. These reforms will however require key contributions from external partners to ensure successful implementation, especially in the areas of IT and capacity development.

C. Monetary and Financial Sector Policies

21. **The monetary policy stance of the CBL will continue to be aimed at ensuring a stable macroeconomic environment characterized by broad exchange rate stability and low inflation**. The value of the Liberian dollar broadly stabilized during 2015 apart from some volatility in June and July mainly due to CBL's increased intervention. The CBL will continue to intervene in the foreign exchange market only to smooth out exchange rate volatility, bearing in mind the need to build foreign reserves to guard against external vulnerabilities, and will also continue to issue CBL notes as an additional tool in the management of Liberian-dollar liquidity.

22. **In late December 2014 the CBL introduced exceptional policy measures to help mitigate the impact of the Ebola crisis on banks**. These measures included allowing dispensation on specific regulations to reduce provisioning burdens on NPLs associated with the Ebola crisis so as to help commercial banks restructure loans and refinance to private sector; putting in place a mechanism to provide liquidity support to the banking system should the need arise; extending repayment periods on loans related to ongoing CBL's stimulus initiatives; paying off the outstanding loan obligations of all private schools to banks (exclusively in Liberian dollars, for an amount equivalent to about US$1.3 million); and waiving interest and default charges on loans associated with CBL's stimulus placement for the specified period of the Ebola crisis stated as July 1, 2014 to June 30, 2015). The CBL will phase out the measures by end-December 2015 and is carrying out an assessment of their impact. We will also finalize the study of the impact of the measures introduced in December 2014 by the CBL to soften the impact of the Ebola crisis (*structural benchmark*).

23. **We are undertaking measures to tackle rising NPLs**. Notwithstanding significant efforts over the last three years that contained NPLs from a peak of above 20 percent to below 15 percent, the NPL problem has re-emerged following the economic slowdown triggered by the Ebola crisis and the decline in commodity prices. The central bank will intensify oversight of credit risk management by analyzing asset quality on a bank-by-bank basis while encouraging commercial banks to write off irrecoverable legacy NPLs. This will partly be achieved by enforcement of the December 2014 amendment to the asset quality regulation that obliges commercial banks to write-off fully provisioned loans.

24. **The CBL will develop a crisis preparedness and management framework with IMF technical assistance**. An ongoing review of existing gaps in the safety net system with emphasis on powers and tools for emergency liquidity and bank resolution is laying the ground for the formulation of the framework, which is designed to ensure that any emerging problems in the banking sector are resolved early and efficiently with minimal impact on financial stability. After the review, the CBL will prepare with the assistance of the IMF (MCM) operational procedures specifying terms and conditions for the provision of Emergency Liquidity Assistance (proposed structural benchmark). Consistent with our commitment under the ECF, we will continue to avoid undertaking direct interventions in the economy to preserve our financial position and ability to act as a lender of last resort.

25. **We remain committed to implementing the recommendations of the safeguards assessment mission**. The CBL will develop a 3-year action plan to strengthen the operational efficiency of the CBL through prudent budgeting (*prior action*). We will provide quarterly financial statements with comments on the implementation of the CBL financial strategy *(structural benchmark)*. In addition, we will update the CBL's investment guidelines in order to ensure safety and liquidity of the CBL's international reserves by aligning them with best international practices, especially with respect to requirements for placement of international exchange reserves (*prior action*). The CBL will work to ascertain the level of capitalization that is needed to strengthen its balance sheet to meaningfully intervene in pursuit of monetary policy objectives. In this regard, the CBL will work with the central government to explore securitizing part of the government's debt with the CBL as a means of strengthening the ability to conduct efficient liquidity management operations.

26. **The government will continue to improve coordination between the Ministry of Finance and the CBL on liquidity management to help anchor inflation**. With the Ebola crisis now extinguished, we undertake to:

- Continue to hold regular (monthly) meetings of the joint MFDP-CBL-LRA Liquidity Management Committee, with high-level participation by the MFDP and CBL (proposed SB).

- In close coordination with the MFDP, target an amount of reserves accumulation consistent with bringing gross reserves on track to reach about 3 months of essential imports by end-2016. Reaching this target is predicated on the assumption of (i) monthly CBL interventions in the foreign exchange market for an average volume of US$3 million; and (ii) sales of U.S. dollars by the MFDP to the CBL for a total of US$3.25 million on a monthly basis plus the extra US$862,500 weekly allocation.

- Modify the implementation of reserve requirements by allowing banks to meet these, on average, over a maintenance period (*structural benchmark*). This would provide flexibility for banks to manage their liquidity and reduce excess reserves.

- Consider unifying the Liberian and U.S. dollar reserve requirement to support de-dollarization efforts, taking into account the prevailing situation with excess Liberian dollar liquidity in the banking sector.

27. **We continue to make progress with other reforms aimed at strengthening financial sector regulation and infrastructure**:

- The CBL has initiated reforms intended to modernize the payments system in the country also in order to facilitate financial inclusion. Significant progress has been made towards this effort. The system was expected to have been fully implemented and operational by end-2014 but due to the Ebola epidemic, a number of key milestones that began came to a standstill as a result of the eventual withdrawal of contractors from the country. Notwithstanding, the CBL completed the system's infrastructure and has initiated discussion with the various contractors for the resumption of work on the applications software including the Automated Check Processing System (ACP) and the Automated Clearing House (ACH), Real time Gross Settlement Systems (RTGS), Core Banking Application, and the SWIFT migration. Efforts toward the implementation of the National Switch, which is intended for the interoperability of the existing payments networks, also commenced. In 2015, the CBL intends to exert more effort towards the completion of activities that were outstanding in 2014 as a result of the Ebola. The CBL has initiated the remobilization of all contractors to return and resume work to complete the remaining tasks.

- In support of financial inclusion aimed at enhancing access to finance, the CBL established the Collateral Registry in June 2014 as a means of perfecting security interest in movable assets (personal property) and establishing priority of secured parties based on the date and time of registration of a security interest. The system allows for the use of household furniture, farm products, accounts receivables/other rights of payments, equipment, inventory, minerals, motor vehicle, among others as collateral to secure a loan, especially for small businesses and individuals who would not easily access loan from the banking system based on immovable assets requirement. Despite the impact of the Ebola crisis on economic activities in 2014, 61 financing statements have been registered for loans extended to 34 individuals, 6 small firms, 12 medium firms and 9 large firms in the 9-month period to March 2015. The value of the financing statements is put at US$248.8 million and L$34.7 million.

- The Insurance Act was passed into law by the National Legislature on December 22, 2014. The CBL's Board approved various regulations in line with the Act to strengthen oversight of the 20 insurance companies.

D. External Sector Policies

28. **The pace of contracting of external borrowing has remained broadly in line with the pre-crisis period**. As of end-July 2015, the total amount of US$843.5 million in loans signed since the beginning of the ECF arrangement in November 2012—mostly concessional borrowing from traditional creditors (World Bank, African Development Bank, International Fund for Agricultural Development)—implies an 8.3 percent average annual PV of debt to GDP over the program period to end-June 2015. The increase, compared to the 5.3 percent target envisaged at the time of the third ECF review, is partly due to additional Ebola-related loans and lower GDP, which together contributed one percentage point. The combined impacts of the Ebola crisis and the sharp decline in iron ore prices have reduced our debt-carrying capacity.

Text Table 3. Loans Ratified since Nov 2012 by Oct 29, 2015

Project	Status	Funding Agency	Amount (In US$ mil)	Grant Element
Small Tree Crop Revitalization Support	Ratified	IDA	15.0	60%
CSLG Power Systems Re-development	Ratified	IDA	144.5	60%
Redlight Ganta High Way Additional Financing	Ratified	IDA	50.0	60%
Small Tree Crop Revitalization Project	Ratified	AFDB	6.4	60%
Liberia Health Systems Strengthening	Ratified	IDA	10.0	60%
LR Poverty Reduction Support Credit I	Ratified	IDA	10.0	60%
Liberia Accelerated Electricity Expansion Project	Ratified	IDA	35.0	60%
LR Urban & Rural Infrastructure Rehabilitation Project	Ratified	IDA	19.6	60%
LR-Public Service Modernization Project	Ratified	IDA	2.0	60%
LR Poverty Reduction Support Credit I	Ratified	IDA	20.0	60%
Mount Coffee Hydro Project	Ratified	EIB	65.9	37%
Fish Town-Harper Road Project Phase-1	Ratified	AFDB	33.8	60%
Fish Town-Harper Road Project Phase-1	Ratified	Nigeria Trust Fund	9.9	42%
CSLG Power Systems Re-development	Ratified	AfDB	38.3	59%
Support to the fight aginst Ebol	Ratified	AfDB	51.9	58%
Support to the fight aginst Ebol	Ratified	AfDB	7.7	58%
Port Rehabilitation	Ratified	Kuwait Fund	14.0	33%
Transmission and distribution	Ratified	India Exim Bank	144.0	36%
Mano River union road development transport facilitation program	Ratified	AfDB	37.5	52%
Mano River Union road transport program	Ratified	AfDB	36.3	52%
Line of credit for the supply and Erection of 2X5 MW HFO Plants by BADEA	Ratified	BADEA	12.0	53%
Second Poverty Reduction support development policy	Ratified	IDA	20.0	60%
Agriculture Sector Rehabilitation Project	Ratified	IFAD	2.5	58%
RIA runway rehabilitation	Ratified	EIB	27.3	39%
RIA runway rehabilitation	Ratified	BADEA	10.0	51%
RIA runway rehabilitation	Ratified	Saudi Arabia	20.0	49%
Total			**843.5**	

29. **Going forward, we plan to continue to prioritize grants and highly-concessional borrowing to finance our development program**. New borrowing for the remaining of this fiscal year will continue to be aligned with our current debt strategy which is consistent with agreed limits under the ECF as well as the agreed limits under our ECF-supported program. Nonetheless, as a result of the Ebola crisis, coupled with a sharp decline in the prices of our major export commodities, the macro assumptions which underpinned the current debt strategy have changed. Under these new, more challenging external conditions, we intend to continue prioritizing grants financing as a first option or highly concessional loans to support strategic infrastructure projects for economic recovery. At the moment, total loans in the pipeline for FY2016 amount to US$180 million. We will firm up the medium-term pipeline after the review of the current debt management strategy which is expected to take place at the end of FY2016.

Text Table 4. Pipeline Loans for FY 2016 as of October 29, 2015

Project	Funding Agency	Nominal Value (In US$ mil)	Grant Element	Present Value (In US$ mil)
Youth employment	IDA	10	53.3%	4.7
AF ENERGY- Bushrod-Western corodor	IDA	60	53.3%	28.0
Budget support FY15/16	IDA	10	53.3%	4.7
Energy RIA corridor T&D; Gbarnga to Ganta T&D	AfDB	14	57.9%	5.9
Interior-High Way-Gbarng-Konia Road	Abu-Dhabi Fund	15	31.7%	10.2
Interior-High Way-Gbarng-Konia Road	Kuwait Fund	17	37.1%	10.7
Interior-High Way-Gbarng-Konia Road	OFID	20	36.1%	12.8
Interior-High Way-Gbarng-Konia Road	BADEA	12	44.2%	6.7
Interior-High Way-Gbarng-Konia Road	Saudi Fund	20	44.2%	11.2
Total		**178**		**95**

30. **Regional and multilateral trade agreements**. Liberia is a member of ECOWAS and will be implementing the ECOWAS Common External Tariff (CET). The implementation of the CET by ECOWAS member states started on January 1, 2014, but Liberia delayed implementation due to the Ebola crisis. Liberia, as a member of the ECOWAS, is obligated to the implementation of ECOWAS Trade Liberalization Scheme (ETLS). However, it remains the only West African country that is not implementing the scheme because the ETLS protocol is still at the Legislature awaiting enactment. Liberia is in the process of acceding to the World Trade Organization (WTO) by end December 2015 at the upcoming Ministerial Conference in Nairobi, Kenya. Liberia has finalized all bilateral arrangements with most of the Working Party members including the United States, the European Union, Japan, Canada, Chinese Taipei and Thailand.

E. Improving National Accounts and Inflation Statistics

31. **The Ebola crisis has interrupted the Household Income and Expenditure Survey (HIES) within 6 months of its successful roll-out at end-January 2014**. LISGIS began data collection for the Household Income & Expenditure Survey in January 2014. Originally, 12 months of data collection was planned; but in response to the Ebola outbreak only six months of data collection was completed in 2014 when survey team was pulled out of the field. Currently, LISGIS is in the final stages of cleaning the six months of HIES data, and simultaneously searching for experts to complete work in the areas of National Accounts, CPI and Poverty analysis.

32. **LISGIS will continue to work with consultants hired through our partners to improve the quality of national accounts statistics**. The latest GDP dataset provided by the consultant hired was reviewed, but GDP estimates have not been completed up to date. With support from partners, LISGIS will complete and publish the NAAS in the coming months, using the agriculture data attached to the completed six months of the Household Income and Expenditure Survey (HIES). Presently, the National Account section is considering estimating the impact of Ebola on Liberia's GDP.

33. **LISGIS will also make use of the HIES data collected to date (six full months of data) to update the CPI basket and weights, with support from the World Bank and IMF's statistics department**. We envisage publishing the revised CPI weights and basket composition by end-March 2016.

PROGRAM MONITORING

34. **We request the extension and re-phasing of the ECF arrangement**. In order to complete the economic program supported by the ECF and access the remaining Fund resources under the arrangement, we request the extension and re-phasing of the program to December 31, 2016.

35. **Program implementation will be monitored by quantitative performance criteria (PCs) and structural benchmarks, and semi-annual reviews**. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding (TMU). Based on the re-phasing, we expect the fifth review to be completed in or after June 2016 based on end-December 2015 and other relevant PCs and the sixth review to be completed in or after December 2016 based on end-June 2016 and other relevant PCs.

Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, June 2014–June 2016

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

	Jun. 14			Status	Dec. 14			Status	Jun. 15		Dec. 15	Jun. 16
	Program	Adjusted[12]	Actual		Program	Adjusted[13]	Actual		Target[13]	Prel.	Proposed	Proposed
Performance criteria[1, 2]												
Floor on total revenue collection of the central government[3]	492.1	492.1	470.5	Not met	245.0	245.0	207.7	Not met	428.4	435.2	216.7	473.7
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
Ceiling on new non-concessional external debt of the public sector (continuous basis)[4]	14.2	14.2	14.2	Met	14.2	14.2	14.2	Met	14.2	14.2	...	...
Ceiling on new domestic borrowing of the central government[5]	35.0	35.0	15.4	Met	45.0	45.0	61.5	Not met	144.5	96.3	144.5	144.5
Floor on CBL's net foreign exchange position[6, 7]	245.0	219.8	192.5	Not met	253.0	201.8	178.6	Not met	162.5	160.3	184.3	192.3
Ceiling on CBL's gross direct credit to central government[7]	260.9	276.1	266.4	Met	260.4	308.3	312.8	Not met	355.8	353.3	352.9	352.9
Ceiling on the present value of gross external borrowing by the public sector[8]											97.0	97.0
Indicative Targets												
Ceiling on gross external borrowing by the public sector[9]	265.0	265.0	181.0	Met	153.2	153.2	295.5	Not met	446.6	389.3	...	...
Ceiling on net domestic assets of the CBL[6, 7]	-25.0	0.2	4.5	Not met	-25.0	26.2	-2.1	Met	20.1	-14.1	25.2	25.2
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0
Floor on social and other priority spending (percent of total actual expenditure, excluding contingencies)[10]	30.0	30.0	35.8	Met	30.0	30.0	34.4	Met	30.0	32.0	32.5	32.5
Memorandum items:												
Total spending on education, health, social development services (percent of total actual expenditure, excluding contingencies)	25.0	25.0	22.9	...	25.0	25.0	21.2	...	25.0	21.4	25.0	25.0
Programmed receipt of external budget support grants and committed external loans[2, 11]	61.6	61.6	36.4	...	18.0	83.6	94.4	...	205.4	206.3	45.0	140.0

Sources: Liberian authorities and IMF staff estimates and projections.

[1] 2015 June is IT. Proposed performance criteria at end-December 15 and end-June 2016 are associated with the proposed extension and rephasing of the ECF arrangement.

[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. December 2014 actual borrowing included the disbursement under the ECF augmentation of SDR32.3 million. Targets after December 2014 includes disbursement under the ECF augmentation of SDR32.3 million and the RCF of SDR32.3 million.

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

[7] The floor on net foreign exchange position will adjust downwards and ceilings on CBL gross credit to government and CBL net domestic assets adjust upwards by the extent bridge financing is from the CBL is available under the program for shortfalls in programmed receipt of external budget support and committed external financing, up to a maximum of US$20 million.

[8] Effective after the completion of the fourth review, the new target is set and monitored in PV terms, based on the average annual ceiling under the program period. An adjustor of up to 5 percent applies in case deviations from the ceiling are prompted by a change in the financing terms. For the purpose of program monitoring, the FY 2016 external borrowing target excludes 57.3 mil loans that were signed in FY 2015 but ratified in FY 2016.

[9] Effective from June 30, 2015, the nominal indicative target is replaced by the new PC on PV of grossexternal borrowings by public sectors.

[10] Includes spending on education, health care, social development services, and energy.

[11] The PC excludes the grants for Mount Coffee executed by the Liberian Electricity Company.

[12] Actual targets based on the automatic adjustors.

[13] The end-December 2014 program ceilings for CBL gross credit to government and CBL net domestic assets have been 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 and RCF at the prevailing market SDR rate and the program SDR rate, respectively.

Table 2a. Liberia: Structural Benchmarks for the Fourth ECF Review (End-March to June 2014)			
Measure	**Target Date**	**Justification**	**Current Status-Risks**
Enhancing budget programming, control and monitoring			
Complete clean-up of payrolls of 5 Ministries and Agencies and upload the cleaned payrolls to IFMIS.	End-March 2014	Reduce payments to ghost workers and increase fiscal space for capital investment.	Met. Validation of the payroll and issuance of biometric cards completed for all ministries and agencies in March 2014 with the removal of about 4,000 ghost workers.
Launch pilot phase of the TSA with zero-balance accounts for seven largest ministries.	End-June 2014	Improve cash management with a view to eliminate idle accounts.	Not met. The implementation of TSA has been stalled mainly due to the lack of technical infrastructure and limited capacity.
Ministries and Agencies to submit to the Department of Budget the cash and procurement plans for both recurrent and PSIP expenditure starting in FY2015.	End-June 2014	Improve execution of public investment.	Not met. Rescheduled to June 2016. Due to the limited capacity in the ministries and agencies and the delay in the budget formulation process, submission of cash and procurement plans were not appropriately conducted.
Publish the FY2016 budget calendar which will, inter alia, require that discussions of the strategic orientations of the budget between the Ministry of Finance and M&As take place before the end of December 2014.	End-June 2014	Ensure sufficient time for consultations on the strategic orientation of the budget.	Met. June 30, 2014.

Table 2a. Liberia: Structural Benchmarks for the Fourth ECF Review (End-March to June 2014) (concluded)

Measure	Target Date[1]	Justification	Current Status-Risks
Complete pilot phase for the migration of credit-financed projects to the Government's Integrated Financial System (IFMIS).	End-June 2014	Strengthen the tracking of off-budget government spending and comprehensiveness of the budget in line with the PFM Act.	Met.
Enhancing national accounts statistics			
Compile national accounts for 2008–13 using the results of the National Accounts Annual Surveys.	End-June2014	Streamlining earlier conditionality and focusing on key program objective to produce enhanced national accounts statistics.	Not met. Survey was originally scheduled to last for a period of 12 months. The survey started January 2014 and to date, two quarters of data have been collected. The data collection for the remaining two quarters was interrupted due to the Ebola outbreak. Data collected during the first 6 months of 2014 has been entered and is currently undergoing validation.
Developing the financial system			
Submit to Legislature a revised Insurance Act.	End-March 2014	Streamline regulation in the insurance sector and establish the central bank as the sole regulator of all insurance agencies.	Not met. However, achieved with delay. The revised Insurance Act was passed into law by the National Legislature on December 22, 2014.

Table 2b. Liberia: Structural Benchmarks for the Fifth ECF Review (End-December 2014)[1]

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control, and monitoring			
Complete pilot phase of the TSA with zero-balance accounts at the Central Bank of Liberia for all ministries and agencies.	End-December 2014	Improve cash management with a view to eliminate idle accounts.	Not met.
Hold regular (monthly) meetings of the Liquidity Management Committee, with high-level (department director or deputy governor at least) participation by the CBL.	End-December 2014	Strengthen liquidity management.	Not met. The Liquidity Working Group has started meeting on a weekly basis in May 2015.
PMO to compile and develop a database of all ongoing domestically and external credit-financed investment projects.	End-December 2014	Strengthen the monitoring, particularly, of multi-year investment projects to ensure adequate budgetary allocations.	Not met. Rescheduled to March 2016 for domestically financed projects and to May 2016 for externally financed projects. Due to the Ebola crisis, the public sector functioning was affected.
Developing the financial system			
Technical working group composed of MFDP and CBL staff to prepare a proposal as to timing and possible terms of conversion of part of Central Government debt held by the CBL.	End-December 2014	Provide the CBL with a stock of T-bills that can be used to conduct monetary policy.	Not met. See the target of regular meetings of the Liquidity Management Committee.

[1] Originally scheduled at the time of the third review.

Table 3. Liberia: Prior Actions for the Fourth ECF Review (December 2015)			
Measure	**Target Date**	**Justification**	**Current Status-Risks**
Enhancing budget programming, control and monitoring			
Submit to main stakeholders a public action plan for the GAC's recommendations on issues identified in the GAC road project audit reports published in June 2015.		Address extra-budgetary spending and PFM issues.	Prior action.
Strengthening the CBLs financial position and external buffers			
Develop a three-year financial plan for the CBL aimed at a gradual return to financial viability.		Strengthen the CBL's financial position by cutting expenditures to boost resilience to shocks.	Prior action.
Update investment guidelines by aligning them with best international practices, especially with respect to requirements for placement of international reserves.		Strengthen safeguards to shield the CBL from counterparty risk.	Prior action.

Table 4. Liberia: Proposed Structural Benchmarks for the Fifth ECF Review (End-December 2015 to End-May 2016)

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Extend IFMIS coverage to 15 externally-financed projects.	End-December 2015	Strengthen project execution and monitoring.	Newly proposed.
Launch a quarterly regular donor meeting to collect necessary information to monitor externally-financed projects.	End-January 2016	Strengthen the monitoring of external assistance, particularly of multi-year investment projects.	Newly proposed.
Public Investment Unit (PIU) to compile and develop a database to cover all domestically-financed investment projects. The database must include total project cost, actual expenditure, future commitments cost overruns, implementation delay, and arrears.	End-March 2016	Strengthen the monitoring of investment projects to ensure adequate budgetary allocations, particularly, of multi-year projects.	Delayed from December 2014.
Submit economic and financial analyses of all Public Sector Investment Plan (PSIP) projects to the Minister of Finance and Development Planning before approved by the Department of Budget for the FY2017 budget.	End-March 2016	Strengthen public investment management.	Newly proposed.
Publish quarterly reports on the financial performance of State Owned Enterprises (SOEs) for FY2016Q1 and Q2.	End-March 2016	Improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	Newly proposed.

Table 4. Liberia: Proposed Structural Benchmarks for the Fifth ECF Review (End-December 2015 to End-May 2016) (concluded)

Measure	Target Date	Justification	Current Status-Risks
Expand the existing database of externally-financed projects to cover cost overrun, project implantation delay, and payment arrears.	End-May 2016	Strengthen the monitoring particularly of multi-year investment projects to ensure adequate budgetary allocations.	Newly proposed.
Enhancing monetary operations and developing the financial sector			
Finalize the study of the impact of the measures introduced in December 2014 by the CBL to soften the impact of the Ebola crisis.	End-December 2015	Strengthen supervisory oversight and regulation.	Newly proposed.
Develop a framework for Emergency Liquidity Assistance and crisis management.	End-March 2016	Ensure that any emerging problems in the financial sector are tackled early with minimal impact on financial stability.	Newly proposed.
Starting with Q1 2016, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.	End-May 2016	Ensure that efforts are being implemented to facilitate a gradual return to financial viability.	Newly proposed.

Table 5. Liberia: Proposed Structural Benchmarks for the Sixth ECF Review, End-June to September 2016

Measure	Target Date	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
All M&As to submit to the PPCC the spending and procurement plans for both recurrent and PSIP expenditure based on the draft FY2017 budget. Coverage of PSIP expenditure in submitted procurement plans to be at a minimum of 90 percent.	End-June 2016	Improve execution of public investment.	Rescheduled from June 2014.
Extend IFMIS coverage to additional 10 large externally-financed projects.	End-June 2016	Strengthen project execution and monitoring.	Newly proposed.
Publish quarterly reports on the financial performance of SOEs for FY2016Q3 and Q4.	End-September 2016	Improve transparency and monitoring of public sector contingent liabilities and total public sector borrowing.	Newly proposed.
Developing the financial system			
For Q2 2016, provide quarterly financial statements with comments on the implementation of the CBL financial strategy.	End-October 2016	Ensure that efforts are being implemented to facilitate a gradual return to financial viability.	Newly proposed.
Starting September 2016, modify the implementation of reserve requirements by allowing banks to meet the requirements, on average, over a maintenance period.	End-September 2016	Strengthen liquidity management.	Newly proposed.

Attachment II: Technical Memorandum of Understanding

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

QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

A. Test Dates

1. Quantitative performance criteria have been set for end-December 2015 and end-June 2016.

B. Definitions and Computation

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

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

4. **For end-December 2015 and end-June 2016, social spending is defined as education, health, social development services, and energy sector spending**. Education, health, and social spending consist of the payments from the FY2016 budget of the units listed below (payment vouchers approved by the Ministry of Finance and Development Planning (MFDP)) excluding contingent expenditure. Energy spending consists of the payments from the FY2016 budget and off-budget spending financed by external loans and grants. It is evaluated as a share of total expenditure

(payment vouchers approved by the MFDP). Total expenditure consists of spending under the FY2016 budget, excluding contingent expenditure tied to contingent revenues, and off-budget energy spending financed by external loans and grants.

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

Total Education, Health, Social Development Services, and Energy Spending (concluded)
Social Development Services
Ministry of Youth & Sports
Ministry of Gender Children & Social Protection
Liberian Refugee Repatriation and Resettlement
National Commission on Disabilities
National Veterans Bureau
Liberia Agency for Community Empowerment
Energy Sector
Thermal diesel (HFO) power station
Transmission and distribution
Mount Coffee rehabilitation, transmission, and distribution to Bushrod Island

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

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

7. **Contingent financial liabilities of the central government (external and internal) include but are not limited to** (i) any guarantee, direct or implicit, of the performance or payment obligations of any private or public entity; (ii) any agreement, including any indemnification agreement, to hold another private or public entity harmless or to provide insurance or similar protection against risk of loss; (iii) any guarantee of economic return to another public or private entity including any guarantee of profit, income or rates of return; (iv) any agreement to provide financial support to another private or public entity in connection with specified activities of such other entity; and (v) any other agreement as provided by regulations under Liberia's Public Financial Management Act.

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

9. **The definition of external debt (both concessional and nonconcessional) by the public sector**, for the purposes of the program, refers to the debt owed to non-residents, and it applies not only to the meaning set forth in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted

December 5, 2014 (Annex I), but also to commitments contracted or guaranteed for which value has not been received. External debt is considered as contracted or guaranteed for program monitoring purposes once all conditions for its entrance into effect have been met, including ratification, if required.

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

11. **Present value (PV) of new external debt** is defined as debt contracted or guaranteed by the public sector with original maturities of one year or more, including debt for which value has not yet been received and private debt for which official guarantees have been extended. For the purpose of program monitoring, the FY2016 external borrowing target excludes US$57.3 million loans that were signed in FY2015 but ratified in FY2016.

12. **PV on new external debt adjustor**. The program ceiling for PV of new external debt will be adjusted upward up to a maximum of 5 percent of the external debt ceiling set in PV terms, in case deviations from the PC on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

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

14. **New domestic arrears/payables of the government** are calculated as the difference between government payment commitments and the actual payments made on such commitments, providing for a processing period of no more than 90 days from the date of commitment. Actual payments are defined as having taken place on the date of issuance of the checks by the Ministry of Finance and Development Planning. Government payment commitments include all expenditure for which commitment vouchers have been approved by the Expenditure Department, and expenditures that are now automatically approved, namely, wages and salaries, pensions, debt payments to the CBL and commercial banks, CBL bank charges, and transfers of ECOWAS levies into the ECOWAS account.

15. **CBL gross direct credit to the central government** is defined as the sum of claims on the central government, including loans, advances, guarantees and contingent financial liabilities as defined in paragraph 7, accounts receivable, bridge financing, overdrafts, and any government debt instrument as defined in the monetary survey template excluding CBL purchases of treasury bills in the secondary market. An overdraft is defined as a negative outstanding balance of the

consolidated government account at the CBL (i.e., the sum of the GoL Revenue Accounts in U.S. dollars; the Revenue Accounts in Liberian dollars; the Civil Servants Payroll Accounts in Liberian dollars; the General Operations Accounts in U.S. dollars; and the General Operations Accounts in Liberian dollars). The gross credit to the government is expressed in U.S. dollars. Claims denominated in Liberian dollars are valued at the end-of-period exchange rate.

16. **The net foreign exchange position of the CBL** is defined as the difference between gross 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 1.5844. Other currencies are valued at cross rates against the U.S. dollar as of end-June 2012.

17. **Gross reserve assets of the CBL** include the following: (i) monetary gold holdings of the CBL; (ii) holdings of SDRs; (iii) the reserve position in the IMF; (iv) foreign convertible currency holdings; (v) foreign denominated deposits held in central banks and other banks; (vi) loans to foreign banks redeemable upon demand; (vii) foreign securities and (viii) other unpledged convertible liquid claims on non-residents. It excludes the following: (i) any foreign currency claims on residents; (ii) capital subscriptions in international institutions; (iii) foreign assets in nonconvertible currencies (iv) 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) foreign reserves blocked for letters of credit.

18. **Gross reserve liabilities of the CBL** are defined as sum of the following (i) outstanding short-medium term 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 domestic banks and government with the CBL. SDR allocations are excluded from gross reserve liabilities of the CBL.

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

20. **External financing adjustor**. Bridge financing from the CBL is available under the program for shortfalls in programmed receipt of external budget support and committed external financing up to a maximum of US$20 million. In this event, floor on net foreign exchange position will adjust downwards and ceilings on CBL gross credit to government and CBL net domestic assets adjust upwards by the extent this financing is utilized, up to a maximum of US$20 million. The adjustor will be calculated on a cumulative basis from the start of the financial year (July 1)

21. **Adjustor for the September 2014 ECF augmentation and the February 2015 RCF**. The net foreign reserves floor and the ceilings on both CBL's gross direct credit to the central

government and CBL's net domestic assets would be adjusted by the full amount of the ECF augmentation and RCF to allow for on-lending of the equivalent of the additional Fund support.

Cumulative Program External Budget Support and Budgeted External Loan Disbursements (Millions of U.S. dollars)	
September 2015	33.6
December 2015	45.0
March 2016	79.98
June 2016	140.3

PROGRAM MONITORING

A. Data Reporting to the IMF

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

Data Reporting Requirements for Program Monitoring

Reporting Agency	Table/Report	Frequency	Timing
	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
MFDP	Detailed reports on monthly core and contingent revenue and expenditure on both a cash and a commitment basis by budget line and a completed summary table on central government operations	Monthly	Within three weeks after the end of the month
MFDP	Outstanding appropriations, allotments and commitments, and disbursements for line ministries and agencies	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
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

Data Reporting Requirements for Program Monitoring (continued)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
CBL	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	End-of-month balances of all operating and other accounts at the CBL of all other public Institutions	Monthly	Within three weeks after the end of the month
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
Balance of Payments and Debt			
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
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
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
MFDP	The amount of new external debt contracted or guaranteed by the public sector	Monthly	Within three weeks after the end of the month
MFDP	The amount of new domestic debt contracted or guaranteed by the public sector	Monthly	Within three weeks after the end of the month
MFDP	A detailed report on monthly payments on external debt by category and creditors and the stock of external debt	Monthly	Within three weeks after the end of the month

Data Reporting Requirements for Program Monitoring (continued)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
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 balance sheet of the CBL in the monthly monetary survey	Monthly	Within three weeks after the end of the month
CBL	The full monthly monetary survey of the monetary sector	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
CBL	The core set of financial soundness indicators for the banking system, including the overall profitability of the banking sector	Quarterly	Within three weeks after the end of the quarter
CBL	The report on the results of foreign exchange sales/purchases by the CBL through foreign exchange auctions held by the CBL and other currency exchange facilities	Weekly	Within a week
CBL	A report on the results of T-bills and CBL bills issuances	Monthly	Within one week after the end of month
CBL	Regular sale of U.S. dollars by the Ministry of Finance and Development Planning to the CBL, including amount date, and rate of exchange	Monthly	Within one week after the end of month
CBL	Daily foreign exchange rates	Daily	Every working day
CBL	Interest rates	Monthly	Within three week after the end of month

Data Reporting Requirements for Program Monitoring (concluded)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
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 six weeks after the end of month
Real			
CBL	Production data in value and volume	Monthly	Within six weeks after the end of the month

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

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

Annex. Guidelines on Performance Criteria with Respect to External Debt

Excerpt from Executive Board Decision No. 15688-(14/107), adopted December 5, 2014

Paragraph 8

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

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

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

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

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

INTERNATIONAL MONETARY FUND

LIBERIA

December 7, 2015

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND REPHASING AND EXTENSION OF THE ARRANGEMENT—INFORMATIONAL ANNEX

Prepared By	African Department (In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of October 31, 2015)

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

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

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	123.98	100.00
Holdings	178.55	144.02

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	32.30	25.00
ECF Arrangements	76.03	58.84

Latest Financial Arrangements:

	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Nov. 19, 2012	Nov. 18, 2015	83.98	61.83
ECF[1]	Mar. 14, 2008	May 17, 2012	247.90	247.90
EFF	Mar. 14, 2008	Sep. 25, 2008	342.77	342.77

[1] Formerly PRGF.

Projected Payments to Fund

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

	Forthcoming				
	2015	2016	2017	2018	2019
Principal				2.10	10.46
Charges/Interest		0.00	0.00	0.00	0.17
Total		**0.00**	**0.00**	**2.10**	**10.63**

Implementation of HIPC Initiative: Enhanced Framework

Commitment of HIPC assistance	
Decision point date	March 2008
Assistance committed	
By all creditors (US$ Million)[1]	2,739.20

Of which: IMF assistance (US$ Million)	721.10
(SDR equivalent in millions)	440.90
Completion point date	June 2010

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

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

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

Delivery of Debt Relief at the Completion Point:

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

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

Implementation of Catastrophe Containment and Relief (CCR):

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

Safeguards Assessment

An update safeguards assessment of the Central Bank of Liberia (CBL) was conducted in connection with the augmentation of the Extended Credit Facility for Liberia approved on September 26, 2014 and Rapid Credit Facility disbursement approved on February 23, 2015. The assessment noted the need to regain momentum in building adequate safeguards. The update recommended a medium-term plan to strengthen the CBLs financial position to support improvement in the foreign exchange reserves position as well as an update of the investment guidelines to a adequately shield the CBL from counterparty risk. The assessment also recommended a strengthening of the governance and control framework to mitigate the CBL's financial risks.

Exchange Rate Arrangement

Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers. The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. The de facto exchange rate regime is classified as 'other managed' effective November 7, 2011 when the exchange rate departed from the stabilized 2 percent six-month band. The de jure exchange rate regime classification remains 'managed floating'. The Central Bank of Liberia (CBL) intervenes in the foreign exchange market to smooth volatility. The exchange rate between the Liberian dollar and United States dollar at November 10, 2015 was L$87.5=US$1 (mid-point between buying and selling rates).

Article IV Consultation, Review of the ECF Arrangement, and Request of the RCF Arrangement and Debt Relief under the CCRT.

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

The third review of the three-year arrangement under the Extended Credit Facility was discussed by the Board on July 3, 2014 (Country Report No. 14/197, July 2014) and is posted on the IMF website.

Ad-hoc review under the ECF arrangement for augmentation of access and modification of performance criteria was discussed by the Board on September 26, 2014 (Country Report No. 14/299, September 2014) and is posted on the IMF website.

Request for disbursement under the Rapid Credit Facility and debt relief under the Catastrophe Containment and Relief Trust were discussed by the Board on February 23, 2015 (Country Report No. 15/49, February 2015) and is posted on the IMF website.

Technical Assistance 2013–15

Topic	Date
Fiscal Affairs Department	
Revenue Administration	February, April-May, and November 2013, February–March and April-May 2014, November 2014–April 2015 (Remote), July–August, September-October, and November–December 2015
Fiscal Reporting	February 2013
Public Financial Management Reform	February and September–October 2013
Petroleum Fiscal Advisory	March, July 2013
SOE Financial Reporting Framework	March–April , September 2013

Medium Term Expenditure Framework	October–November 2013
ITAS Implementation and Taxpayer Survey	May–June 2013
Progress under the Topical Trust Fund	June 2013
Automated Audit Risk Selection Plan	July–August 2013
Capacity Building and Sector Audit Training, including Computer assisted Audit Techniques in Telecommunications.	August–September and November 2013; April 2014
Fiscal Framework for a New Model Petroleum Production Sharing Contract and Revenue Modeling	June 2014
Budget Formulation and Public Sector Investment Plan	June 2015
Statistics Department	
Monetary and Financial Statistics	April 2013
Government Finance Statistics	September 2013
Balance of Payments	March 2013 and July 2014
National Accounts and Consumer Price Index	April 2013, May 2014, April–September (Remote), June–July, and November 2015
Monetary and Capital Markets Department	
Banking Supervision	October 2013; January, April, and July 2014.
Stress Testing	February and April 2013, July 2013
Monetary and Financial Statistics	March–April 2013
Managing Liquidity and strengthening Research Department Analytical Capacity	February 2013
Evaluating and strengthening the Treasury Bill Program and Research Department Reporting	May 2013
Stress Testing – TA Evaluation	July 2013
Resolution Strategies for High Levels of Nonperforming Loans	November–December 2013
Liquidity Forecasting	May 2014
Liquidity Forecasting	August 2015
Crisis Preparedness and Management Framework	October–November 2015
Legal Department	
Drafting Tax Legislation (income tax, VAT and natural resource taxation)	March 2013

Resident Representative

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

JOINT WORLD BANK-IMF WORK PROGRAM, 2012–16

(As of November 23, 2015)

Title	Products	Timing of mission	Expected delivery date	Status
A. Mutual information on relevant work programs				
1. WB work program	1. Public Expenditure Review Notes	November 2011	July 2013	Completed
	2. First Poverty Reduction Support Credit (PRSC I)	May 2013	August 2013	Approved and disbursed
	3. Second Poverty Reduction Support Credit (PRSC II)	October 2013	September 2014	Approved and disbursed
	4. Supplemental Financing to Second Poverty Reduction Support Credit	October 2015	February 2016	On-going
	5. Third Poverty Reduction Support Credit (PRSCIII)	March 2015	May 2016	On-going
	6. Household Income and Expenditure Survey	January 2014	July 2016	Stopped due to the Ebola crisis
2. IMF work program	1. Negotiation successor ECF	July–Sept. 2012	November 2012	ECF Program approved on Nov. 19, 2013.
	2. Article IV Consultation	July–Sept. 2012	Nov. 2012	Completed
	3. First review of ECF Program	March 2013	July 3, 2013	Completed
	4. Second review of ECF Program	Sept. 2013	Nov. 2013	Completed
	5. Third review of ECF Program	March 2014	July 3, 2014	Completed
	6. Ad-hoc review of ECF Program for augmentation of access		September 26, 2014	Completed
	7. Request for RCF and debt relief under the CCR Trust		February 23, 2015	Completed
	8. Fourth Review and Article IV Consultation	October 2015	December 2015	On-going
	9. Fifth review of ECF program	April 2016	June 2016	On-going
	10. Sixth review of ECF program	October 2016	December 2016	On-going

Title	Products	Timing of mission	Expected delivery date	Status
3. WB/IMF Joint work program	1. Updated Debt Sustainability Analysis	October 2015	December 2015	On-going
	2. Technical Assistance for PFM reforms and decentralization.			On-going
	3. Assist the authorities in developing national accounts and Consumer Price Index	June 2015	June 2016	On-going
	4. Revenue enhancement support			On-going
B. Requests for work program inputs				
4. Fund request to Bank	1. Regular updates on the Liberia Reconstruction Trust Fund, disbursements of loans, including PRSC		Quarterly and as needed	
	2. World Bank Relations Note		As needed	
5. Bank request to Fund	1. Regular updates of performance under the Fund-supported program, macroeconomic projections and data following each IMF mission		Continuous	
	2. IMF Relations Note		As needed	

RELATIONS WITH THE WORLD BANK GROUP[1]

(As of November 16, 2015)

A. Bank Group Strategy

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

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

The International Finance Corporation (IFC) investment over the CPS period is expected to average US$25–35 million per year. The current IFC portfolio comprises US$24.4 million in equity; US$37.3million credit and trade lines; US$13 million seed investment in the West Africa Venture Fund for direct on-lending to, or equity in SMEs (US$6.8million allocated for Liberia and balance for Sierra Leone) and US$33.5 million debt financing approved and committed to the rubber and cocoa sectors. The priority sectors for IFC's investments include agribusiness, infrastructure including power, financial services and mining. IFC's advisory service will include strategic engagement in investment climate improvement, education to foster employment, supplier linkages, agriculture, leasing, finance services infrastructure and private sector development.

In response to the Ebola Virus Disease (EVD) outbreak, the World Bank Group has provided extraordinary support to Liberia, well beyond the scope of the CPS including commitment of some US$177 million from the Crisis Response Window (CRW). In the wake of the Ebola crisis, the World Bank Group has undertaken a rapid review of its strategy and portfolio to ensure they remain aligned with the country's development needs.

[1] Prepared by the World Bank.

B. Active Projects

There are currently sixteen active[2] IDA projects in Liberia, including four regional projects, with a total commitment of approximately US$562.8 million of which approximately US$208.3 million is undisbursed. One new operation has been approved for FY16 to date, for a total of approximately US$10 million of IDA credit. The new operation is summarized below.

Youth Opportunities Project (YOP) was approved on November 6, 2015 for US$10 million. The objectives of the project are to improve access to income generation opportunities for targeted youth and strengthen the government's capacity to implement its cash transfer program. The project will directly benefit about 15,000 targeted youth aged 15–35 years. There will be 50 percent participation of vulnerable female youth. In addition, the distribution of beneficiaries across urban and rural areas will be based on the proportion of the total youth population in each area and poverty levels. Adolescents aged 15–17 years in urban areas will benefit from pre-employment social support. The project has three components: (i) *Pre-employment Social Support and Household Enterprises for Urban Youth* aimed at addressing youth labor market participation and behavioral constraints; (ii) *Productive Public Works and Life Skills Support* will provide vulnerable youth in rural areas with immediate consumption smoothing support through productive public works and life skills training and to build capacity for the implementation of household enterprise support, productive public works, and life skills training; *and (iii)* the *Capacity Building for Cash Transfer Program* aims to improve efficiency in the delivery of cash transfers to targeted households in Liberia. In particular, this component will support the building blocks for a basic safety net system, including (a) improving the process of targeting extremely poor households through the introduction of a proxy means test; (b) improving operational efficiency by strengthening ICT systems, particularly MIS and electronic payments systems; (c) refurnishing office buildings to house the information management systems; (d) ensuring the design and implementation of a functional M&E system; and (e) strengthening of social accountability and grievance redress systems.

C. Economic and Sector Work

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

The World Bank has also completed a human development Public Expenditure Review (PER) covering the education, health and social protection sectors. Public spending on the human

[2] Includes effective and or disbursing operations.

development sector in Liberia is low by Sub-Saharan Africa (SSA) standards. The PER therefore examines a number of key public expenditure issues affecting progress in attaining the MDGs. The Review considers the sources and levels of funding, budgetary allocations across and within the sectors, and the quality, equity and efficiency of public expenditure on human development.

The World Bank has recently completed a policy note on Jobs "Creating More and Better Jobs in Liberia: Issues and Options." The Government of Liberia is deeply concerned by what is perceived to be relatively high rates of joblessness in an economy that is recovering from fourteen years of civil conflict. A comprehensive policy response to the Government's concern is constrained by a lack of critical knowledge. Furthermore, traditional metrics for measuring the performance of the labor market poorly cover the dominant urban and rural informal sectors, or the extent of underemployment. The note is therefore intended to help fill the critical knowledge gap through a systematic analysis of the labor market, focusing on issues related to both the demand and supply sides. The analysis draws on quantitative information from the 2007 and 2010, Core Welfare Indicator Questionnaires Survey (CWIQS); the 2010 Labor Force Survey; the 2012 Poverty Note as well as the host of quantitative and qualitative analyses done on Liberia and in the region over the last five years. The note focuses on issues on both the demand and supply sides of the labor market as well as the effects of employment protection legislation.

D. Financial Relations (as at November 16, 2015)

Active and Disbursing Projects
(U.S. dollars)

Project	Approved Amount (USD Eq)	Approval Date	Closing Date	Undisbursed Balance (USD Eq)	Disbursed Outstanding Balance (USD Eq)
Total	**562,816,950.00**			**208,278,493.87**	**293,168,807.35**
Poverty Reduction Support Credit II	20,000,000.00	12-Nov-14	31-Dec-15	0.00	18,647,010.00
Ebola Emergency Response Project	115,000,000.00	18-Nov-14	31-Mar-16	4,966,943.89	102,495,084.11
Ebola Emergency Response Project	52,000,000.00	16-Sep-14	31-Mar-16	0.00	47,377,218.00
Liberia Land Administration Project	416,950.00	2-Jul-14	31-Dec-15	0.00	416,950.00
Liberia Health Systems Strengthening	10,000,000.00	30-May-13	30-May-18	3,938,822.62	5,315,619.38
Liberia: Public Sector Modernization Project	2,000,000.00	10-Feb-14	30-Sep-19	626,041.01	1,307,722.99
Liberia Accelerated Electricity Expansion Project (LACEEP)	35,000,000.00	30-May-13	30-Jun-18	28,872,485.36	3,448,998.64
LR Smallholder Tree Crop Revitalization Support Project	15,000,000.00	5-Jun-12	31-Dec-16	7,515,306.90	5,882,915.10
WAPP APL4 (Phase 1) - Ivoire, Sierra Leone, Liberia, and Guinea Power System Re-development	144,500,000.00	31-May-12	31-Oct-19	112,114,773.90	16,756,784.10
Liberia Integrated Public Financial Management Reform Project	5,000,000.00	15-Dec-11	30-Jun-16	21,492.79	4,398,539.21
Liberia Road Asset Management Project - LIBRAMP	67,700,000.00	7-Jun-11	30-Jun-22	32,657,372.84	26,874,933.16
Emergency Monrovia Urban Sanitation Project (EMUS)	4,000,000.00	7-Apr-11	30-Dec-16	0.00	3,591,276.00
West Africa Agricultural Productivity Program APL (WAAPP-1C)	6,000,000.00	24-Mar-11	30-Jun-16	0.00	5,386,914.00
LIBERIA Electricity System Enhancement Project (LESEP)	22,000,000.00	26-Jan-12	31-May-16	6,049,005.23	13,564,886.77
LIBERIA Electricity System Enhancement Project (LESEP)	10,000,000.00	30-Nov-10	31-May-16	443,688.70	8,534,501.30
West Africa Regional Communications Infrastructure Program	25,600,000.00	20-Jan-11	30-Sep-16	1,416,221.86	21,098,316.14
West Africa Regional Fisheries Program	9,000,000.00	20-Oct-09	15-Dec-15	47,349.22	0.00
LR-Urban and Rural Infrastructure Rehabilitation Project	19,600,000.00	24-Jan-14	31-Dec-15	9,608,989.55	8,071,138.45

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

IDA Disbursements and Debt Service (Since HIPC Completion Point)						
US$ Million	**Jul 2010–Jun 2011**	**Jul 2011–Jun 2012**	**Jul 2012-Jun 2013**	**Jul 2014-Jun 2015**	**Jul-Sept 2015**	**Oct-Dec 2015***
Total disbursements	61.83	55.27	40.18	183.6	17.5	58.9
Repayments	0.33	0.00	0.00	0.00	0.00	0.00
Net disbursements	61.49	55.27	40.18	183.6	17.5	58.9
Interest and fees	0.05	0.12	0.25	0.79	0.17	0.16
Projected*						

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK[1]

(As of November 11, 2015)

There are 18 active AfDB projects in Liberia, in addition to projects funded by trust funds. The portfolio has a total commitment of approximately UA 292.5 million, equivalent to US$413 million, of which 25 percent is disbursed. A brief description of these projects is provided below.

1. **Ebola Response Projects**: The AfDB has prepared various multinational projects in response to the Ebola Virus Disease (EVD) outbreak including:

   a. **Ebola Fight Back Budget Support Program**: This is a UA 100.2 million multinational program across Côte d'Ivoire, Guinea, Liberia and Sierra Leone, of which Liberia's portion is a UA 40.2 million loan. The operation contributes towards addressing the fiscal gap created by the epidemic in the countries, supporting measures to respond to the crisis, and the need to address longer term issues to develop economic resilience.

   b. **Strengthening West Africa Public Health Systems (SWAPHS)**: This UA 40 million multinational project, of which a USD 11.4 million grant is directly allocated to Liberia, is intended to achieve three broad strategic outcomes: building human resource capacity and systems for emergency response and preparedness, infrastructure development, and strengthening governance and regional institutions.

   c. **Technical Assistance Crisis Response Project** (USD 2.1 million grant): The project intends to build response capacity to manage potential and future outbreaks; improve private sector participation in national crisis management; and improve coordination.

   d. **Exceptional Assistance to respond to Ebola** (USD 1.0 million grant): This program supports building the technical and material prevention capacity of community-level health services; case management; development and management of isolation centers; assistance management, and institutional support.

   e. **Post Ebola Recovery Social Investment Fund (PERSIF)** (UA 2 million grant): This program will provide seed funding to establish a Social Investment Fund to finance demand-driven, small-scale activities on the basis of calls for proposals issued by the Fund. It is expected to play a catalytic role in improving community response to outbreaks, thereby contributing to inclusive growth, gender equality and poverty reduction in the three affected countries.

2. **Integrated Public Financial Management Reform Project (IPFMRP)**: The AfDB's UA 3.0 million grant support for this project was approved on September 10, 2012. Supported by

[1] Prepared by the African Development Bank.

four donors—the AfDB, World Bank, USAID, and SIDA—this US$28.55 million project represents an innovative approach for the Bank to support a comprehensive government program for PFM reform. By using a pooled funding arrangement, the project harmonizes support from the four donors, increasing development effectiveness while decreasing the administrative burden on the Government. The project has five components, which are mutually reinforcing: (i) enhancing budget planning and credibility; (ii) strengthening budget execution, accounting and reporting; (iii) strengthening revenue administration; (iv) enhancing transparency and accountability; and (v) project management and capacity building.

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

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

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

6. **Smallholder Agricultural Productivity Enhancement and Commercialization (SAPEC) Project**: This UA 34.08 million project will be funded by a UA 29.08 million grant from the Global Agriculture and Food Security Program (GAFSP), a UA 4.0 million ADF loan, and UA 1.0 million by in-kind contributions from the Government of Liberia. The Intervention seeks to reduce rural poverty and household food insecurity by increasing income for smallholder farmers and rural entrepreneurs particularly women, youths and the physically-challenged. SAPEC will be implemented in 12 of the 15 counties of Liberia over 2014 to 2017 and seeks to scale-up the

on-going Agricultural Sector Rehabilitation Project (ASRP). The project consists of four components, namely: (i) Sustainable Crop Production Intensification; (ii) Value Addition and Marketing; (iii) Capacity Building and Institutional Strengthening; and (iv) Project Management.

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

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

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

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

11. **Mano River Union (MRU) Road Development and Transport Facilitation Program**: The MRU Road Development and Transport Facilitation program will upgrade to bitumen standard 276.35 km of roads in eastern Guinea, West and South-West Côte d'Ivoire, and eastern Liberia. The Program will be executed from June 2015 to June 2019 for an estimated net total cost of UA 221.97 million. Liberia's portion, covering Karloken-Fish Town (80 km) and Harper-Cavalla junction (16 km), is a UA 76.88 million loan from ADF and TSF. The project will also include the construction of joint border control posts.

12. **Regional Electricity Interconnection Project: Cote d'Ivoire, Liberia, Sierra Leone and Guinea (CLSG)**. The CLSG electricity interconnection project will construct a 1,357-km-long double circuit high voltage (225 kV) line to connect the national networks of the four countries. This line is part of the backbone of the Mano River Union countries and one of the priority projects of the West African Power Pool (WAPP) Master Plan. The project will help establish a dynamic electric power market in the West African sub-region and secure power supply for participating countries which have a comparative advantage in importing power rather than producing it domestically. The project, estimated at an overall cost of UA 331.51 million, will be implemented over the 2014–17 period. The contribution of the Bank Group (ADF, FSF and NTF) amounts to UA 128.15 million (or 38.7 percent of the total cost). Some 24 million residents in the impact area will benefit from reliable electric power at competitive cost. The project will raise the average electricity access rate in the four countries from 28 percent in 2012 to 33 percent by 2017. The increased electricity access will contribute to improving the welfare of the beneficiaries and lead to the development of social and income-generating activities.

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

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

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

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

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

STATISTICAL ISSUES

(As of November 30, 2015)

I. Assessment of Data Adequacy for Surveillance
General: Data have serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in the areas of national accounts, government finance, and balance of payments statistics.
National Accounts: Comprehensive national accounts data are not available. Fund staff estimate GDP by activity using the production approach and primary source data provided by the Liberia Institute of Statistics and Geo-Information Services (LISGIS). Estimates for GDP by expenditure are not available. During May–September 2012, the LISGIS, assisted by an STA mission, conducted (a second round) National Accounts Annual Survey (NAAS 2012) collecting information for the years 2010 and 2011. The processing of the NAAS 2012 was completed in June 2014, but several issues were identified within the data. Consequently, the set of GDP estimates for 2008-2013 presents serious inconsistencies. AFRITAC West 2 in coordination with the World Bank will assist the LISGIS to develop a more robust and reliable set of GDP estimates based on the 2012 NAAS and additional source data to be identified. With support from the World Bank, a Household Income and Expenditure Survey (HIES) was conducted from January to July 2014 but ceased in August due to the Ebola outbreak. It is expected that from August 2015 the HIES will be undertaken again for a full 12 month period. The data collected to date has been processed and will be used in developing preliminary estimates of household final consumption expenditure (HFCE).
Price Statistics: In January 2007, the authorities formally adopted the Harmonized Consumer Price Index (HCPI). The HCPI is based on an expanded basket of goods and services consistent with the Economic Community of West African States (ECOWAS) harmonized market basket, The HCPI covers only the Greater Monrovia and there is a need to extend the HCPI to include all the counties. The index reference base has also been changed from May 1998 to December 2005. The weights are based on market basket data from neighboring countries. AFRITAC West 2 and the EDDI[1] 2 project will assist LISGIS to compute preliminary weights based on the 6-month HIES, and compile a new CPI by end-March 2016. The weights will be further updated with the planned full 12 month HIES results.
Government Finance Statistics: Liberia has reported to STA annual GFS up to 2012 for budgetary central government which also includes local governments. The Ministry of Finance is in the process of phasing-in the GFSM 2001 framework. According to a GFS TA mission in 2013, there are still a number of areas for improvement: lack of a legal framework to collect GFS; limited data sharing and coordination among data-producing agencies; inconsistent institutional coverage of the general government in other datasets (e.g., national accounts and monetary statistics); omission of some externally funded flows and nonmonetary transactions; missing the government financial balance sheet (Table 6 in GFSY); and incorrect reference exchange rate to convert data from Liberian dollars to U.S. dollars.

[1] Enhanced Data Dissemination Initiative (EDDI) phase 2 funded by the UK Department for International Development-supported.

Monetary and Financial Statistics: A Monetary Financial Statistics (MFS) mission provided assistance to the authorities in April 2013, with the aim of helping Liberia implement the standardized report forms (SRFs). The mission documented some progress in the area of MFS, but the SRF project has not moved forward since then, and at present there are no plans to finalize it.	
Financial sector surveillance: The authorities provide some (basic market-based) financial soundness indicators (FSIs). Data are not sufficient to conduct stress tests of the banking system or a Balance Sheet Approach analysis. Cross border exposure data for financial corporations are not available.	
External sector statistics: Reporting is not comprehensive. Balance of payments statistics are compiled on a BPM5 basis, but the CBL is now making efforts to adopt BPM6 methodology. International Investment Position (IIP) statistics have not yet been compiled. Most of the 2011, 2013, and 2014 TA mission recommendations have not been implemented; several areas need improvement, particularly with regard to primary source data, methodology, compilation practices, and frequency and timeliness in data dissemination. In August 2015, the CBL developed a three year work plan to address these issues and to conduct new surveys for improving data coverage and accuracy.	
II. Data Standards and Quality	
Participant in the General Data Dissemination System (GDDS) since October 2005. Metadata for most data categories were updated in January 2013.	No Data ROSC mission has been conducted.
III. Reporting to STA	
The authorities report, for the related publications (IFS, GFSY, and BOPSY), annual balance of payments data and government finance statistics. The authorities have begun to submit data to STA for publication in the IFS after an extended break. The authorities provide some financial soundness indicators (FSIs) to the IMF database; however, not all core FSIs are reported and the reported indicators are not timely. The reserves data have not been reported for many years.	

Liberia: Table of Common Indicators Required for Surveillance							
	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items: Data Quality – Methodological Soundness	Memo Items: Data Quality – Accuracy and Reliability
Exchange Rates	9/30/2015	11/11/2015	D	M	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	9/2015	11/11/2015	M	M	Q		
Reserve/Base Money	9/2015	11/11/2015	M	M	Q		
Broad Money	9/2015	11/11/2015	M	M	Q		
Central Bank Balance Sheet	9/2015	11/11/2015	M	M	Q		
Consolidated Balance Sheet of the Banking System	9/2015	11/11/2015	M	M	Q		
Interest Rates[2]	9/2015	11/11/2015	M	M	Q		
Consumer Price Index	9/2015	11/11/2015	M	M	Q		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA		
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	9/2015	11/17/2015	M	Q	I		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	9/2015	11/17/2015	Q	Q	I		

Liberia: Table of Common Indicators Required for Surveillance (concluded)							
	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:	
						Data Quality – Methodological Soundness	Data Quality – Accuracy and Reliability
External Current Account Balance	9/2015	11/11/2015	Q	Q	Q		
Exports and Imports of Goods and Services	9/2015	11/11/2015	M	M	Q		
GDP/GNP	2008	3/1/2011	A	I	I		
Gross External Debt	8/2015	9/30/2015	Q	Q	Q		
International Investment Position[6]	NA	NA	NA	NA	NA		

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

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

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

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

[5] Including currency and maturity composition.

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

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

INTERNATIONAL MONETARY FUND

LIBERIA

December 7, 2015

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND REPHASING AND EXTENSION OF THE ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS[1]

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Liberia's risk of external debt distress has increased from low to moderate. The combined impacts of the Ebola crisis and the sharp decline in commodity prices have significantly affected the growth and exports outlook, contributing to deteriorated debt sustainability. Under the baseline scenario, all debt indicators are below their policy-dependent thresholds. However, due to lower nominal GDP and exports and higher new borrowings compared with the previous DSA update, stress tests indicate that the present value of public external debt-to-GDP and debt-to-exports indicators would breach the threshold over the medium term under the most extreme shock scenario. The debt outlook under alternative scenarios also highlights continued vulnerabilities to negative shocks to borrowing terms, the exchange rate, exports and growth. Hence, it would remain important for the authorities to continue to prioritize grants and highly-concessional financing while developing new medium term borrowing plans consistent with preserving debt sustainability.

[1] The LIC-DSA incorporates the following general assumptions: (i) the discount rate is fixed at 5 percent; (ii) the exchange rates are based on WEO assumptions; and (iii) the risk of debt distress based on country-specific policy-dependent thresholds, based on the country's CPIA index, which for Liberia is 3.09.

INTRODUCTION

1. **This debt sustainability analysis (DSA) is a full joint Bank-Fund LIC-DSA; the last LIC-DSA (an update) was considered by the Executive Board in July 2014 as part of Liberia's third review under the Extended Credit Facility Arrangement (ECF)**.[2] The heavy toll of the Ebola outbreak, compounded by the negative impact of the sharp decline in iron ore prices, have led to significantly lower growth and higher external borrowings in 2014–15, as well as a worsened medium term outlook. Following the large impact of these twin shocks, key external debt indicators, especially the debt-to-exports and debt-to-GDP ratio, have deteriorated over the medium term. The current DSA results suggest a moderate risk rating of debt distress for Liberia, compared with the low risk rating reported in the last DSA update in July 2014. Liberia's capacity to monitor debt continues to be assessed as being adequate.

BACKGROUND

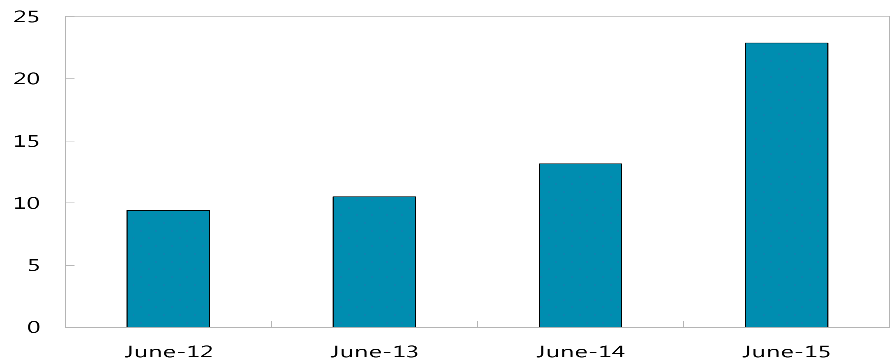
2. **Liberia was hit by two large negative shocks in 2014, with significant implications on the economic outlook**. The Ebola outbreak since mid-2014 has severely impacted the economy, with a particularly heavy toll on agriculture and services, and the impact is expected to linger over a longer period. Notwithstanding that, the sharp decline in the price of key export commodities, most notably the 60 percent drop of iron ore prices since early 2014, has affected exports and caused delays in investment in the sector. As a result, growth in 2014–15 was revised down from 8–9 percent at the time of the 3rd ECF review to the current 0–1 percent. For 2016–18, average annual growth was revised downward from 8 ¾percent pre-crisis to about 5 percent.

3. **The pace of external borrowing has accelerated in recent years in line with the authorities' poverty reduction strategy–the Agenda for Transformation, alongside additional Ebola-related loan support in 2014–15**. After Liberia reached the HIPC initiative completion point in June 2010, external debt sustainability improved, providing fiscal space for new government borrowing to finance key public investment projects. After a slow start, the pace of external borrowing has accelerated since 2012 and total newly contracted external borrowings amounted to US$843.5 million (42 percent of GDP) as of end-July 2015, mainly on account of increased external financing for infrastructure and energy projects, with about 65 percent of the total funding provided by traditional multilateral creditors on highly concessional terms. As a result, the annual average PV of total new borrowings amounted to 8.3 percent of GDP over the program period to end-June 2015, higher than the 5.3 percent target agreed at the time of the 3rd ECF review, of which the Ebola-related borrowings and lower GDP contribute about one percentage point.

[2] The DSA was prepared jointly by the staff of the IMF and Bank, in collaboration with the authorities of Liberia. The last joint DSA update prepared for the 3rd ECF review can be found in IMF Country Report No. 14/197, July 2014.

4. **In light of the worsened economic outlook, debt sustainability has deteriorated**. Although public external debt remained relatively low at about 23 percent of GDP at June-2015, it is expected to increase steadily over the medium term with the disbursement of the recently-ratified new borrowings.

Figure 1. Liberia: Stock of External Public Debt
(In percent of GDP)



Sources: Liberian authorities and IMF staff calculations.

Table 1. Liberia: Structure of External Public Debt as of June-2015[1/]

	USD millions	Percent of Total	Percent of GDP
Multilateral	**425**	**93**	**21**
IMF	154	34	8
World Bank	159	35	8
AfDB	33	7	2
EIB	33	7	2
Other Multilateral	46	10	2
Bilateral:Non-Paris Club	**33**	**7**	**2**
China	6	1	0
Kuwait	9	2	0
Saudi Arabia	19	4	1
Total	**458**	**100**	**23**

Sources: Liberian authorities and IMF staff calculations.
[1] Debt stock on disbursement base, excluding debt to French C2D as the debt repayment will be returned to Liberia as grants for development projects and debt to Taiwan Province of China (85.4 mil) that is not servicing due to the lack of diplomatic relationship.

UNDERLYING ASSUMPTIONS

5. **The baseline macroeconomic assumptions underlying this DSA are summarized in Box 1**. Specifically, in staff's baseline projection, economic performance during 2014–15 reflects the twin shocks of the Ebola outbreak and the sharp decline in the prices of key export commodities. Medium and long-term macroeconomic assumptions rely heavily on the sustained containment of the Ebola outbreak, the expansion of large mining projects starting from 2020 (delayed, and on a lower scale than anticipated at the time of the 3rd ECF review), and the continuation of sound macroeconomic policies.

6. **The key changes in the baseline macroeconomic assumptions relative to the previous DSA update are as follows**:

- Real GDP growth is projected to be much lower during 2014–15 and over the medium term, reflecting the negative impact of the twin shocks. The GDP deflator is also revised downward significantly to reflect recent price developments in the iron ore sector.[3]

- The overall fiscal deficit in FY 2015–16 is projected to be higher than envisaged in the previous DSA, driven by higher current expenditure, and capital spending related to the Mount Coffee hydroelectric project and the implementation of the Economic Stabilization and Recovery Plan (ESRP). In the medium to long term, public expenditure is expected to gradually slow down, with fiscal balance as percent of GDP in line with previous projections.

- External new debt disbursements during FY2015–18 are higher reflecting the disbursement of higher-than-anticipated new external government borrowing already ratified or in the process of being ratified in FY2015. Over the longer run, external borrowing as percent of GDP is assumed to be in line with the last DSA update.

- The DSA incorporates the ECF augmentation of SDR 32.3 million, the debt relief under the CCR Trust of SDR 25.84 million and the RCF disbursement of SDR 32.3 million. The current DSA also takes into account the authorities' latest debt stock data as of June-2015 while excluding Taiwan Province of China and French CD2 loans that are expected to be fully restructured.

- The current account deficit is significantly higher in 2015 compared with the previous DSA update, reflecting the impact of the commodity price decline. Both exports and imports of goods are significantly lower in the near to medium term compared with levels envisaged at the time of the previous DSA update. While services imports and current transfers are much larger in FY2014/15 reflecting Ebola-related international support and are projected to return to the pre-crisis level over the medium term.

Table 2. Major Changes in DSA Assumptions
(Average over the 20-year projection period)

	3rd Review	4th Review
Real GDP growth (percent)	6.2	5.6
GDP deflator in USD (in percent)	3.3	2.4
Current account deficit (percent of GDP)	-22.4	-31.8
Primary deficit (percent of GDP)	-2.4	-2.7

[3] Iron ore deflator decreased more than 55 percent from 2014 to 2015, contributing roughly -4 percent to changes in GDP deflator, while changes in non-iron GDP deflator is about 3.7 percent.

Box 1. Key Baseline Macroeconomic Assumptions, 2015–35[1/]

Real GDP growth. Output is projected to decline by 2.7 percent in FY2015, reflecting the heavy toll of the Ebola outbreak on most economic sectors and the impact of the sharp decline in the prices of iron ore and rubber exports. With economic activity gradually returning to normal following the eradication of Ebola, real GDP growth is projected to increase to 4–5 percent in FY2016 and FY2017, buoyed by recovery in agriculture and services, and the coming on stream of a new gold mine. Growth is expected to average 5.4 percent in FY2016–20, lower than the projection at the time of the third ECF review (pre-Ebola and pre-commodity price shock). Long term growth over FY2021–35 is projected to average around 6.1 percent as mining production reaches full capacity and non-mining activity stabilizes. There are significant downside risks to the growth projection, including a prolonged period of low commodity prices, a flare-up of the Ebola disease as well social unrest as UNMIL is set to fully withdraw by end-2016 before the 2017 Presidential election.

Inflation. Inflation is projected to remain relatively high at around 8-8 ½ percent in FY2015–16 as the rebound in activity and imports offsets the impact of low international oil prices. In the long run, inflation is projected to gradually decline and stabilize at around 5 percent.

External account. The significant fall in iron ore and rubber prices will adversely affect exports growth in the near and medium term, although this could be partly offset by the coming on stream of a new gold mine by end-2015. Hence, exports are projected to fall by 16 percent in FY2015 and further decline by 12 percent in FY2016. Beyond, annual export growth is projected to gradually recover over the medium term and stabilize at around 5 percent toward 2035. Imports are projected to increase by 5 percent in FY2015 as increased demand combined with aid-related inflows is expected to outweigh the fall in fuel imports. Imports are projected to contract in FY2016–18 owing mainly to the expected drawdown of UNMIL before recovering to an average 8 percent growth during FY2019–24 largely driven by imports of capital goods related to the expansion in the iron ore sector. Beyond 2024, these effects would be phased out and the annual growth in goods and services imports is expected to average 5 percent. With the end of the Ebola epidemic, donor transfers are expected to fall sharply after 2015 from 60 percent of GDP to about 30 percent of GDP in FY2020 and to gradually decline to 13 percent of GDP by the end of the projection period. As a result, the current account deficit is projected to widen further in FY2015 to 40 percent of GDP but will gradually decline to reach 25 percent of GDP by FY2035, in line with the historical average level prior to the recent Ebola and commodity price shocks.

Tax revenues. The tax revenue to GDP ratio is projected to improve from 18.6 percent in FY2015 to around 21 percent in FY2021 and remain broadly stable at about 21 percent going forward.

External borrowing. Loans ratified since 2012 totaled US$843.5 million as of end-July 2015, most of which are on highly concessional terms for priority infrastructure projects, with another US$180 million projects in the pipeline for FY2016. The annual average NPV of signed external borrowing and pipeline loans is projected to be 7.1 percent of GDP over the program period up to June-2016, higher than the 5.3 percent target agreed in the IMF 3rd ECF review in July 2014. The expected disbursement of recently ratified loan agreements over the medium term, compounded by ambitious investment plans under the Economic Stabilization and Recovery Plan (ESRP), would raise external debt from about 14 percent of GDP in FY2014 to a projected 40 percent of GDP in FY2020. Beyond this, disbursement of external borrowing is expected to gradually decline from 4 percent of GDP in FY2021 to 2.5 percent of GDP toward the end of the projection period, in line with historical average. Most of the new external borrowings are assumed to be on highly concessional terms before 2020, except the US$14.2 million loans already signed on non-concessional terms. Starting from 2021, a small portion of borrowings are assumed on non-concessional terms from Chinese banks.

[1/] All data refer to fiscal year which runs from July to June.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

7. **The external DSA results indicate an increased risk of debt distress over the medium term** (Figure 2 and Table 3). In the medium term, the PV of debt-to-GDP ratio is projected to rise steadily from 14 percent in FY2015 to 23 percent by FY2020 in the baseline scenario, and gradually decline thereafter. With the deteriorated exports outlook, the PV of debt-to-export ratio is projected to increase significantly from 40 percent in FY 2015 to a peak of 98 percent in FY 2020, very close to the 100 percent threshold. Due to the highly concessional nature of new debt, debt-to revenues and debt service indicators remain well below the thresholds. These thresholds are based on the country policies and institutions assessment (CPIA) compiled annually by the World Bank.

8. **Compared with the previous DSA, the baseline debt indicators have worsened over the medium term**. In the baseline scenario, all debt indicators remain below the policy-dependent thresholds. The lower level of nominal GDP, lower exports and higher external borrowing result in a worsening of key debt indicators over the medium term. This highlights the relatively limited scope for the government to take on more external debt during the next five years, before the projected rise in mining sector exports and fiscal revenues, and the continued need for seeking concessional external resources. In light of the worsened borrowing capacity, the authorities indicated during the 4th review mission in October 2015 that they are streamlining their medium term borrowing plan and reviewing the current debt strategy. They noted that they intend to develop a new medium-term debt strategy with technical support from the IMF and the World Bank before the end of FY2016.

9. **The sensitivity analysis indicates deteriorated debt-to-GDP and debt-to-exports indicators, breaching the policy-dependent threshold under the extreme shock scenario**.

- **PV of external debt-to-GDP ratio**. Under the extreme shock scenarios of one-time large nominal depreciation, the PV of external debt-to-GDP breaches the 30 percent threshold throughout FY2018–23. The historical scenario shows that if key macroeconomic variables return to their historical average between FY2008 to FY2014, PV of debt increases from around 14 percent of GDP to 24 percent of GDP towards the end of the projection period.
- **PV of external debt and debt service-to-exports ratio**. Under the extreme shock scenarios of less favorable borrowing terms, the PV of external debt-to-exports ratio breaches the 100 percent threshold from FY2018 onwards and reaches a peak of 129 percent in FY2020, reflecting worsened exports outlook related to weak commodity prices. The debt service ratio remains well below the threshold of 15 percent in all scenarios.
- **PV of external debt and debt service-to-revenue ratio**. The PV of external debt-to-revenue ratio shows sensitivity to less favorable borrowing terms and one-time large depreciation. Both the debt and debt service-to-revenue ratios are well below the policy thresholds in all scenarios throughout the projection period.

10. **The probability approach further confirms the moderate risk rating of external debt distress**. According to the LIC Debt Sustainability Framework guideline, the evolution of debt-exports ratio in Figure 2 suggests a "moderate-to-high borderline case" where the debt-to-exports ratio fall within a

10-percent band around the indicative threshold in the baseline scenario, triggering the use of the probability approach as an alternative methodology for assessing the risk of external debt distress. As shown in Figure 4, the projected probability of debt distress for the debt-to-exports ratio remains within the threshold in stress scenarios while the probability of debt-to-GDP ratio breaches the threshold by more than 10 percent and lasts for about 6 years during 2018–23. This combined with the results shown in Figure 2 confirm a moderate risk rating of debt distress.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

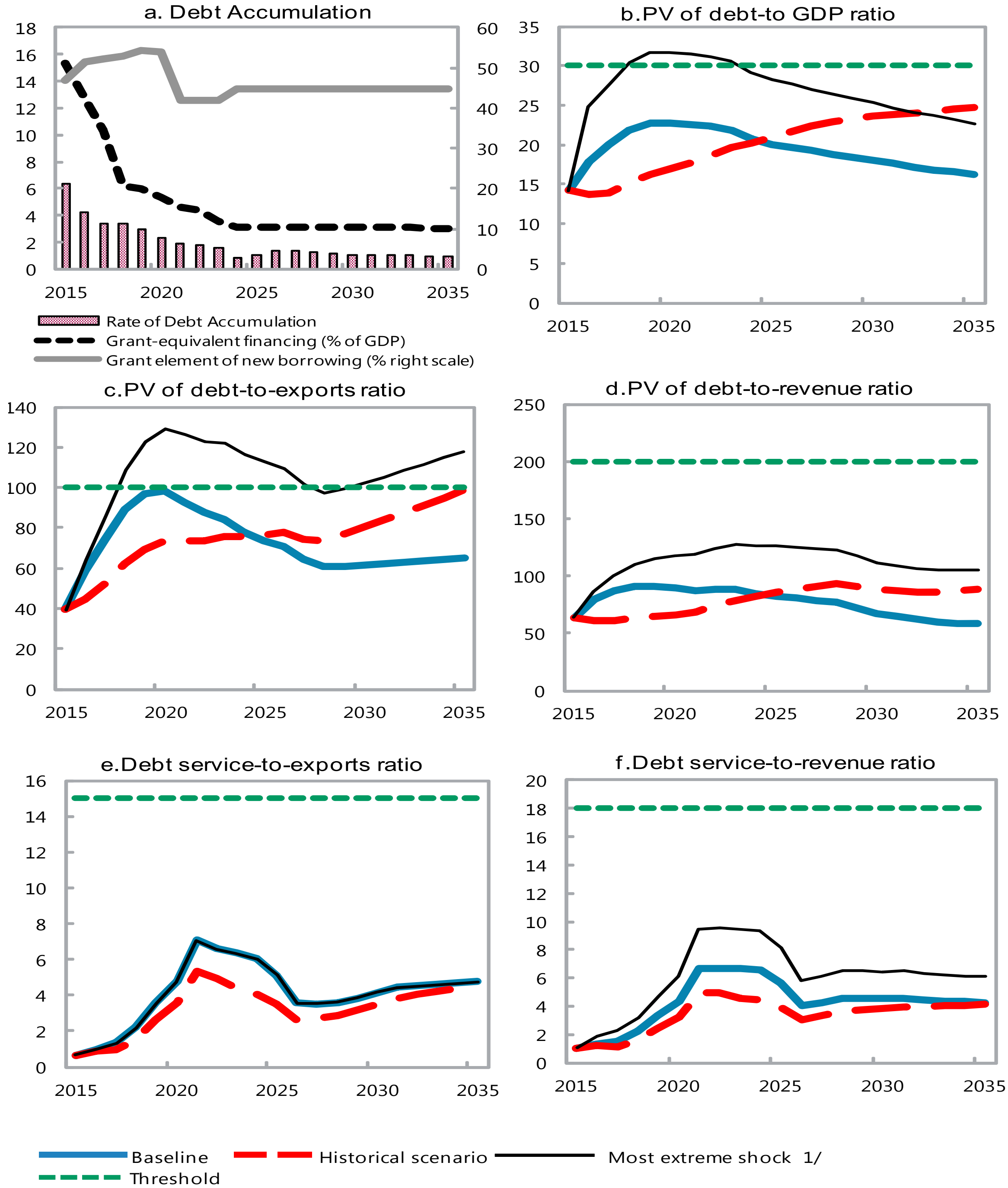
11. **The inclusion of domestic debt in the DSA worsens the debt burden indicators compared to the previous DSA** (Figure 3, Tables 5). Under the baseline and shock scenarios, all debt indicators have deteriorated in the near and medium term, though they remain below their respective thresholds. Under the baseline, the PV of public debt-to-GDP rises steadily from 15 percent in FY2015 to around 24 percent in FY2020 and is expected to fall afterwards. The PV of debt-to-revenue ratio rises to a peak of 84 percent in FY2018 and then follows a gradual downward path towards the end of the projection period. The PV of debt service-to-revenue ratio remains below the threshold afterwards.

12. **Stress tests highlight the risks associated with adverse macroeconomic shocks** (Figure 3, Table 6). Public debt indicators are particularly sensitive to lower growth, a large real depreciation and a significant increase in other debt-creating flows. Under the alternative scenario of a 10 percent increase in other debt-creating flows in FY2016, the PV of debt-to-GDP ratio will increase from 15 percent in FY2015 to the peak at about 29 percent by FY2018. The PV of the public debt-to-revenue ratio also deteriorates under this scenario, reaching over 100 percent around FY2018/19. However, the debt service-to-revenue ratio will remain below 15 percent under the alternative scenario.

CONCLUSION

13. **The projected increase in Liberia's debt over the medium term indicates a moderate risk of debt distress**. This has been revised up from the low risk rating under the previous DSA update in July 2014 mainly owing to the unexpected two large shocks experienced since 2014. The underlying macroeconomic assumptions and DSA results were discussed and agreed with the authorities during the mission. In the baseline scenario, all debt indicators remain below their respective thresholds. However, stress tests indicate that Liberia's external debt outlook has deteriorated over the medium term and continues to be vulnerable to macroeconomic shocks, in particular to changes in borrowing terms, growth, exports, and exchange rate depreciation. The inclusion of domestic debt leads to a deterioration in debt indicators. The increased risk of debt distress highlights the need for sound macroeconomic policies and prudent debt management, including relying primarily on concessional financing. The authorities' plan to review the current debt management strategy would be important to develop new medium to long term borrowing plans consistent with preserving debt sustainability.

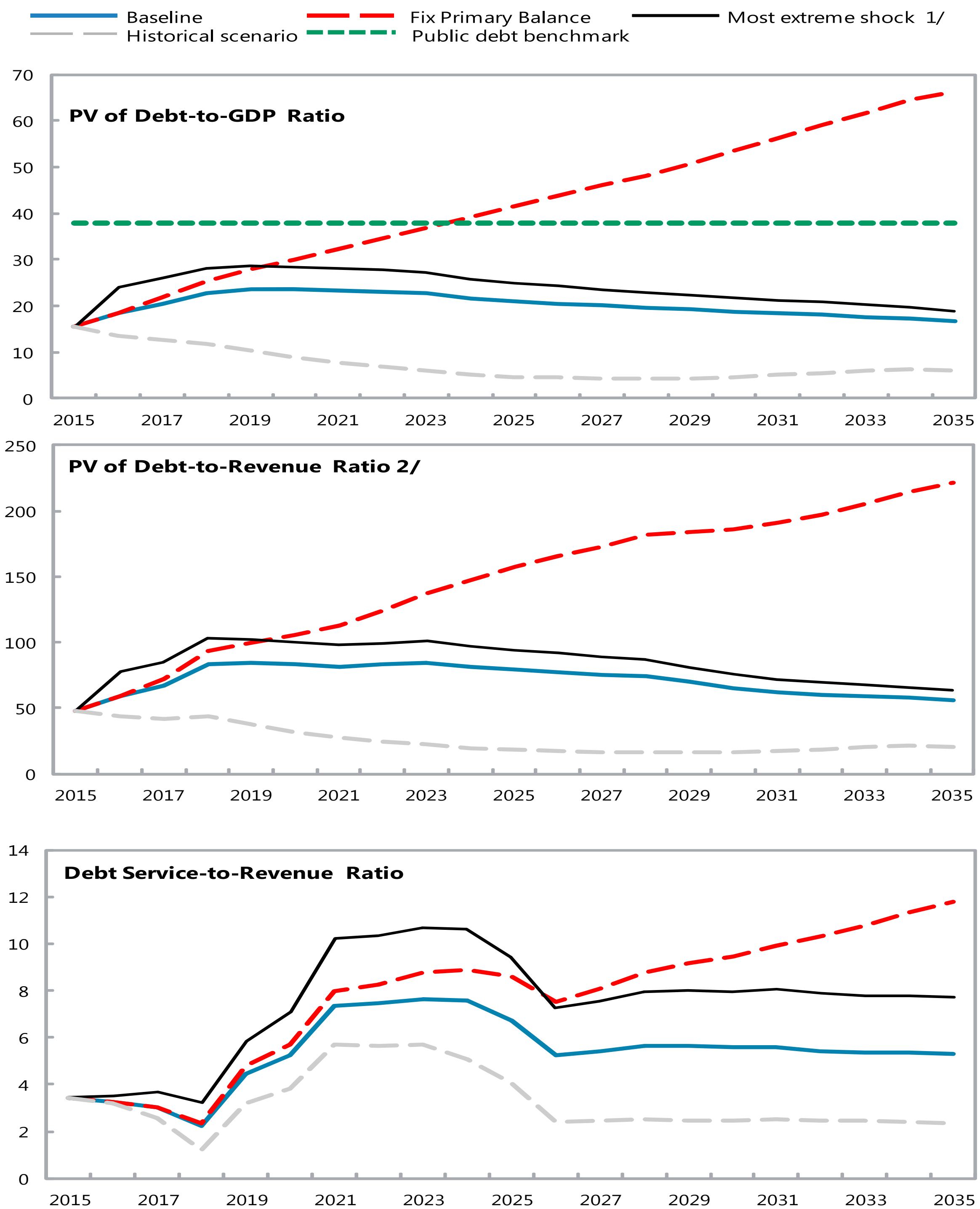
Figure 2. Liberia: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2015–35[1]



Sources: Country authorities; and staff estimates and projections.

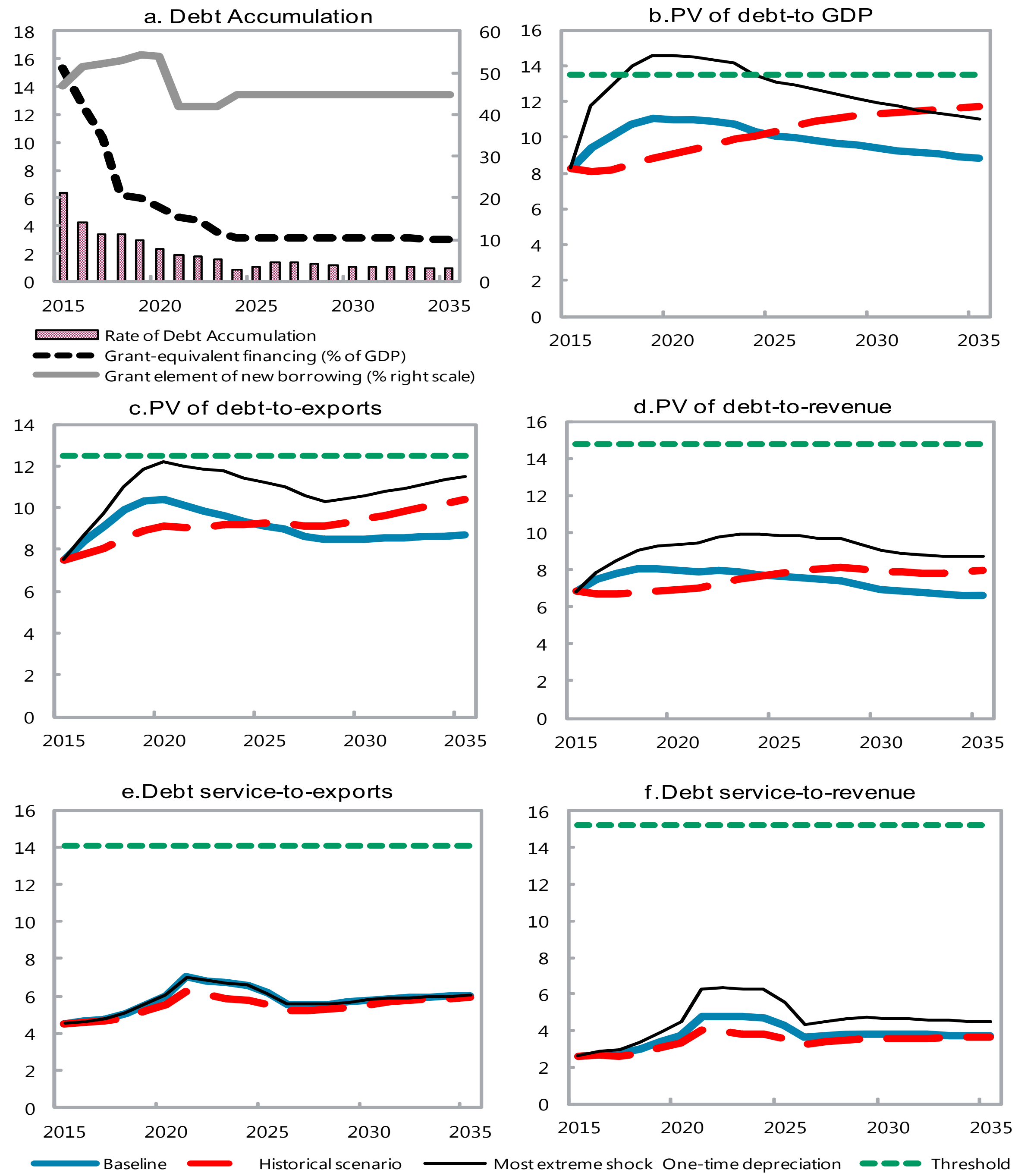
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a Terms shock; in e. to a Growth shock and in figure f. to a One-time depreciation shock.

Figure 3. Liberia: Indicators of Public Debt Under Alternative Scenarios, 2015–35[1]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Figure 4. Liberia: Probability of Debt Distress of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2015–35[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a Terms shock; in e. to a Growth shock and in figure f. to a One-time depreciation shock.

Table 3. Liberia: External Debt Sustainability Framework, Baseline Scenario, 2012–35[1]

(Percent of GDP, fiscal year, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**9.4**	**10.9**	**13.6**			**23.2**	**30.1**	**33.8**	**37.2**	**39.2**	**39.5**		**34.3**	**26.9**	
of which: public and publicly guaranteed (PPG)	9.4	10.9	13.6			23.2	30.1	33.8	37.2	39.2	39.5		34.3	26.9	
Change in external debt	-2.2	1.5	2.7			9.6	6.9	3.7	3.5	2.0	0.3		-1.4	-0.6	
Identified net debt-creating flows	-0.2	2.6	7.9			13.2	9.2	5.5	3.7	2.4	1.5		-0.5	0.3	
Non-interest current account deficit	**24.2**	**24.9**	**29.5**	**21.4**	**11.7**	**35.8**	**37.8**	**35.1**	**33.3**	**32.0**	**31.9**		**29.9**	**24.7**	29.9
Deficit in balance of goods and services	77.3	65.3	73.5			85.9	78.2	63.7	52.9	50.9	48.2		40.9	31.5	
Exports	48.3	48.4	43.0			36.3	30.4	26.8	24.5	23.5	23.1		27.2	25.0	
Imports	125.6	113.7	116.4			122.2	108.7	90.6	77.4	74.4	71.3		68.1	56.5	
Net current transfers (negative = inflow)	-66.5	-57.4	-61.6	-99.6	38.2	-65.5	-53.1	-40.4	-31.6	-29.8	-27.8		-21.1	-12.7	-18.5
of which: official	-26.7	-25.0	-32.2			-33.6	-24.7	-23.2	-22.6	-21.1	-19.5		-14.6	-8.6	
Other current account flows (negative = net inflow)	13.4	17.0	17.6			15.3	12.7	11.8	12.0	10.8	11.4		10.1	5.9	
Net FDI (negative = inflow)	**-22.8**	**-21.3**	**-20.9**	**-13.8**	**17.0**	**-23.1**	**-27.7**	**-28.6**	**-28.3**	**-27.8**	**-28.2**		**-28.6**	**-23.6**	-28.3
Endogenous debt dynamics 2/	**-1.6**	**-0.9**	**-0.8**			**0.5**	**-0.9**	**-1.1**	**-1.3**	**-1.7**	**-2.2**		**-1.8**	**-0.8**	
Contribution from nominal interest rate	0.0	0.1	0.1			0.1	0.2	0.2	0.3	0.3	0.3		0.4	0.3	
Contribution from real GDP growth	-0.8	-0.7	-0.6			0.4	-1.1	-1.3	-1.6	-2.0	-2.5		-2.2	-1.1	
Contribution from price and exchange rate changes	-0.8	-0.4	-0.3			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-2.1**	**-1.2**	**-5.2**			**-3.5**	**-2.3**	**-1.8**	**-0.2**	**-0.5**	**-1.2**		**-0.9**	**-1.0**	
of which: exceptional financing	0.0	0.0	0.0			-0.9	-0.9	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	7.9			14.2	17.9	20.0	21.9	22.8	22.7		20.1	16.2	
In percent of exports	...	...	18.5			39.3	58.8	74.4	89.1	96.7	98.4		73.8	64.8	
PV of PPG external debt	**...**	**...**	**7.9**			**14.2**	**17.9**	**20.0**	**21.9**	**22.8**	**22.7**		**20.1**	**16.2**	
In percent of exports	**...**	**...**	**18.5**			**39.3**	**58.8**	**74.4**	**89.1**	**96.7**	**98.4**		**73.8**	**64.8**	
In percent of government revenues	**...**	**...**	**33.8**			**63.7**	**79.6**	**86.5**	**90.6**	**90.6**	**89.0**		**82.6**	**58.1**	
Debt service-to-exports ratio (in percent)	**0.1**	**0.8**	**0.4**			**0.7**	**1.0**	**1.3**	**2.2**	**3.6**	**4.7**		**5.1**	**4.8**	
PPG debt service-to-exports ratio (in percent)	**0.1**	**0.8**	**0.4**			**0.6**	**1.0**	**1.3**	**2.2**	**3.6**	**4.7**		**5.1**	**4.8**	
PPG debt service-to-revenue ratio (in percent)	**0.2**	**1.4**	**0.8**			**1.1**	**1.3**	**1.6**	**2.3**	**3.3**	**4.3**		**5.7**	**4.3**	
Total gross financing need (Millions of U.S. dollars)	24.3	73.5	177.0			258.1	218.7	156.3	132.3	131.1	138.1		119.7	233.2	
Non-interest current account deficit that stabilizes debt ratio	26.5	23.4	26.8			26.2	30.9	31.5	29.8	30.0	31.6		31.3	25.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.9	8.5	5.7	7.1	1.9	-2.7	4.9	4.6	4.9	5.9	7.0	4.1	6.8	4.3	6.1
GDP deflator in US dollar terms (change in percent)	7.6	4.0	2.4	6.3	2.6	2.5	0.3	2.2	2.1	3.0	3.1	2.2	1.9	3.7	2.5
Effective interest rate (percent) 5/	0.1	1.6	0.7	0.4	0.6	0.9	0.8	0.8	0.8	0.9	0.9	0.8	1.2	1.2	1.2
Growth of exports of G&S (US dollar terms, in percent)	26.1	13.1	-4.0	15.1	16.8	-15.7	-11.8	-5.7	-2.2	4.6	8.4	-3.7	10.9	4.8	9.4
Growth of imports of G&S (US dollar terms, in percent)	9.3	2.2	10.7	15.9	23.9	4.7	-6.4	-10.9	-8.4	4.9	5.7	-1.8	3.7	5.0	7.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	46.9	51.6	52.1	52.9	54.2	53.9	51.9	44.6	44.6	44.1
Government revenues (excluding grants, in percent of GDP)	26.2	27.5	23.5			22.4	22.5	23.1	24.1	25.1	25.5		24.3	27.8	26.0
Aid flows (in Millions of US dollars) 7/	28.3	45.7	77.6			199.1	183.3	167.9	73.1	77.4	82.8		89.5	202.8	
of which: Grants	28.3	45.7	77.6			199.1	183.3	167.9	73.1	77.4	82.8		89.5	202.8	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			15.4	12.6	10.4	6.2	6.0	5.4		3.1	3.0	3.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			71.4	77.4	79.5	68.8	70.0	71.3		69.2	70.3	68.4
Memorandum items:															
Nominal GDP (Millions of US dollars)	1643.1	1853.9	2005.5			2000.8	2103.8	2249.6	2409.9	2627.9	2898.2		4474.3	10141.8	
Nominal dollar GDP growth	16.0	12.8	8.2			-0.2	5.2	6.9	7.1	9.0	10.3	6.4	8.8	8.2	8.7
PV of PPG external debt (in Millions of US dollars)			154.3			281.1	366.5	437.1	513.4	584.2	644.4		884.8	1614.8	
(PVt-PVt-1)/GDPt-1 (in percent)						6.3	4.3	3.4	3.4	2.9	2.3	3.8	1.0	0.9	1.2
Gross workers' remittances (Millions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	7.9			14.2	17.9	20.0	21.9	22.8	22.7		20.1	16.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	18.5			39.3	58.8	74.4	89.1	96.7	98.4		73.8	64.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.4			0.6	1.0	1.3	2.2	3.6	4.7		5.1	4.8	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 4. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt 2015–35

(Percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	14	18	20	22	23	23	**20**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	14	14	14	15	16	17	**21**	25
A2. New public sector loans on less favorable terms in 2015-2035 2	14	20	23	27	29	30	**31**	29
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	14	17	19	21	22	22	**19**	16
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	14	16	18	20	21	21	**19**	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	14	17	19	21	22	22	**19**	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	14	18	14	16	17	18	**17**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	14	6	-11	-9	-7	-5	**0**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	14	25	28	30	32	32	**28**	23
PV of debt-to-exports ratio								
Baseline	39	59	74	89	97	98	**74**	65
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	39	45	52	62	69	73	**77**	99
A2. New public sector loans on less favorable terms in 2015-2035 2	39	64	86	109	123	129	**113**	118
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	39	57	72	87	94	96	**73**	64
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	39	51	62	76	83	85	**65**	59
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	39	57	72	87	94	96	**73**	64
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	39	60	53	67	74	77	**61**	59
B5. Combination of B1-B4 using one-half standard deviation shocks	39	18	-38	-32	-25	-20	**1**	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	39	57	72	87	94	96	**73**	64
PV of debt-to-revenue ratio								
Baseline	64	80	86	91	91	89	**83**	58
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	64	61	60	63	65	66	**86**	89
A2. New public sector loans on less favorable terms in 2015-2035 2	64	87	100	110	115	117	**126**	106
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	64	77	83	87	87	86	**80**	56
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	64	73	76	81	82	81	**77**	56
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	64	75	81	85	86	84	**79**	55
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	64	81	62	68	70	70	**68**	53
B5. Combination of B1-B4 using one-half standard deviation shocks	64	27	-49	-36	-26	-20	**1**	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	64	110	120	126	126	124	**116**	81

Table 4. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt 2015–35 (Concluded)

(Percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
Debt service-to-exports ratio								
Baseline	1	1	1	2	4	5	**5**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	1	1	1	2	3	4	**4**	5
A2. New public sector loans on less favorable terms in 2015-2035 2	1	1	1	2	4	6	**5**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	1	1	1	2	4	5	**5**	5
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	1	1	1	2	3	4	**5**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	1	1	1	2	4	5	**5**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	1	1	1	2	3	4	**4**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	0	-1	1	2	**0**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	1	1	1	2	4	5	**5**	5
Debt service-to-revenue ratio								
Baseline	1	1	2	2	3	4	**6**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	1	1	1	2	2	3	**4**	4
A2. New public sector loans on less favorable terms in 2015-2035 2	1	1	2	2	4	5	**6**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	1	1	2	2	3	4	**6**	4
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	1	1	1	2	3	4	**5**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	1	1	2	2	3	4	**6**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	1	1	2	2	3	4	**5**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	0	-1	1	2	**0**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	1	2	2	3	5	6	**8**	6
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	42	42	42	42	42	42	**42**	42

Sources: Country authorities; and staff estimates and projections.

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

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

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

4/ Includes official and private transfers and FDI.

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

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

Table 5. Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015–35

(Percent of GDP, fiscal year, unless otherwise indicated)

	Actual					Estimate	Projections								
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	11.0	12.4	16.1			24.4	30.7	34.2	38.1	40.0	40.3		35.1	27.3	
of which: foreign-currency denominated	11.0	12.4	16.1			24.4	30.7	34.2	38.1	40.0	40.3		35.1	27.3	
Change in public sector debt	-2.6	1.4	3.8			8.3	6.3	3.5	3.9	2.0	0.3		-1.4	-1.0	
Identified debt-creating flows	1.3	0.6	1.0			7.9	7.6	3.2	3.6	1.8	0.7		-1.7	-2.3	
Primary deficit	3.2	1.4	1.8	0.0	2.1	7.9	8.2	4.9	5.7	4.7	4.1	5.9	0.9	-0.5	0.8
Revenue and grants	27.9	29.9	27.4			32.3	31.2	30.6	27.2	28.1	28.4		26.3	29.8	
of which: grants	1.7	2.5	3.9			10.0	8.7	7.5	3.0	2.9	2.9		2.0	2.0	
Primary (noninterest) expenditure	31.2	31.4	29.2			40.2	39.5	35.4	32.8	32.8	32.5		27.2	29.4	
Automatic debt dynamics	-1.9	-0.8	-0.8			0.0	-0.6	-1.7	-2.0	-3.0	-3.5		-2.6	-1.8	
Contribution from interest rate/growth differential	-1.2	-0.9	-0.7			0.5	-1.2	-1.6	-1.9	-2.6	-3.1		-2.6	-1.4	
of which: contribution from average real interest rate	-0.2	0.0	0.0			0.0	0.0	-0.2	-0.3	-0.5	-0.5		-0.3	-0.2	
of which: contribution from real GDP growth	-1.0	-0.9	-0.7			0.4	-1.1	-1.4	-1.6	-2.1	-2.6		-2.3	-1.2	
Contribution from real exchange rate depreciation	-0.7	0.1	-0.1			-0.5	0.6	-0.1	-0.1	-0.4	-0.4		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-3.9	0.8	2.8			0.4	-1.3	0.3	0.2	0.2	-0.4		0.3	1.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	10.5			15.5	18.5	20.4	22.7	23.6	23.5		20.9	16.5	
of which: foreign-currency denominated	...	...	10.5			15.5	18.5	20.4	22.7	23.6	23.5		20.9	16.5	
of which: external	...	...	7.9			14.2	17.9	20.0	21.9	22.8	22.7		20.1	16.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.4	2.3	3.0			9.0	9.2	5.8	6.3	6.0	5.6		2.7	1.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	38.3			47.9	59.3	66.9	83.5	84.0	82.9		79.3	55.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	44.5			69.2	82.3	88.5	94.0	93.8	92.2		85.9	59.5	
of which: external 3/	...	...	33.8			63.7	79.6	86.5	90.6	90.6	89.0		82.6	58.1	
Debt service-to-revenue and grants ratio (in percent) 4/	0.4	3.0	4.2			3.5	3.2	3.0	2.2	4.4	5.3		6.8	5.3	
Debt service-to-revenue ratio (in percent) 4/	0.5	3.2	4.9			5.0	4.5	4.0	2.5	5.0	5.9		7.3	5.7	
Primary deficit that stabilizes the debt-to-GDP ratio	5.8	0.1	-2.0			-0.4	1.9	1.4	1.8	2.8	3.9		2.3	0.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.9	8.5	5.7	7.1	1.9	-2.7	4.9	4.6	4.9	5.9	7.0	4.1	6.8	4.3	6.1
Average nominal interest rate on forex debt (in percent)	0.2	1.4	1.3	0.6	0.6	1.4	1.1	0.9	1.0	0.8	0.8	1.0	1.2	1.2	1.1
Average real interest rate on domestic debt (in percent)	-5.7	-6.6	...	-5.9	4.4	...	...	...	...	...	...	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.6	0.6	-1.1	-3.6	4.0	-2.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	8.7	8.0	9.2	9.5	3.5	7.3	4.7	8.2	7.8	8.2	8.0	7.3	5.2	6.9	6.0
Growth of real primary spending (deflated by GDP deflator, in percent)	24.5	9.1	-1.7	3.4	8.0	34.2	2.9	-6.0	-2.9	5.8	6.1	6.7	5.5	3.8	5.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	46.9	51.6	52.1	52.9	54.2	53.9	51.9	44.6	44.6	...

Sources: Country authorities; and staff estimates and projections.

1/ Central government gross debt.

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

3/ Revenues excluding grants.

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

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

Table 6. Liberia: Sensitivity Analysis for Key Indicators of Public Debt, 2015–35
(Percent)

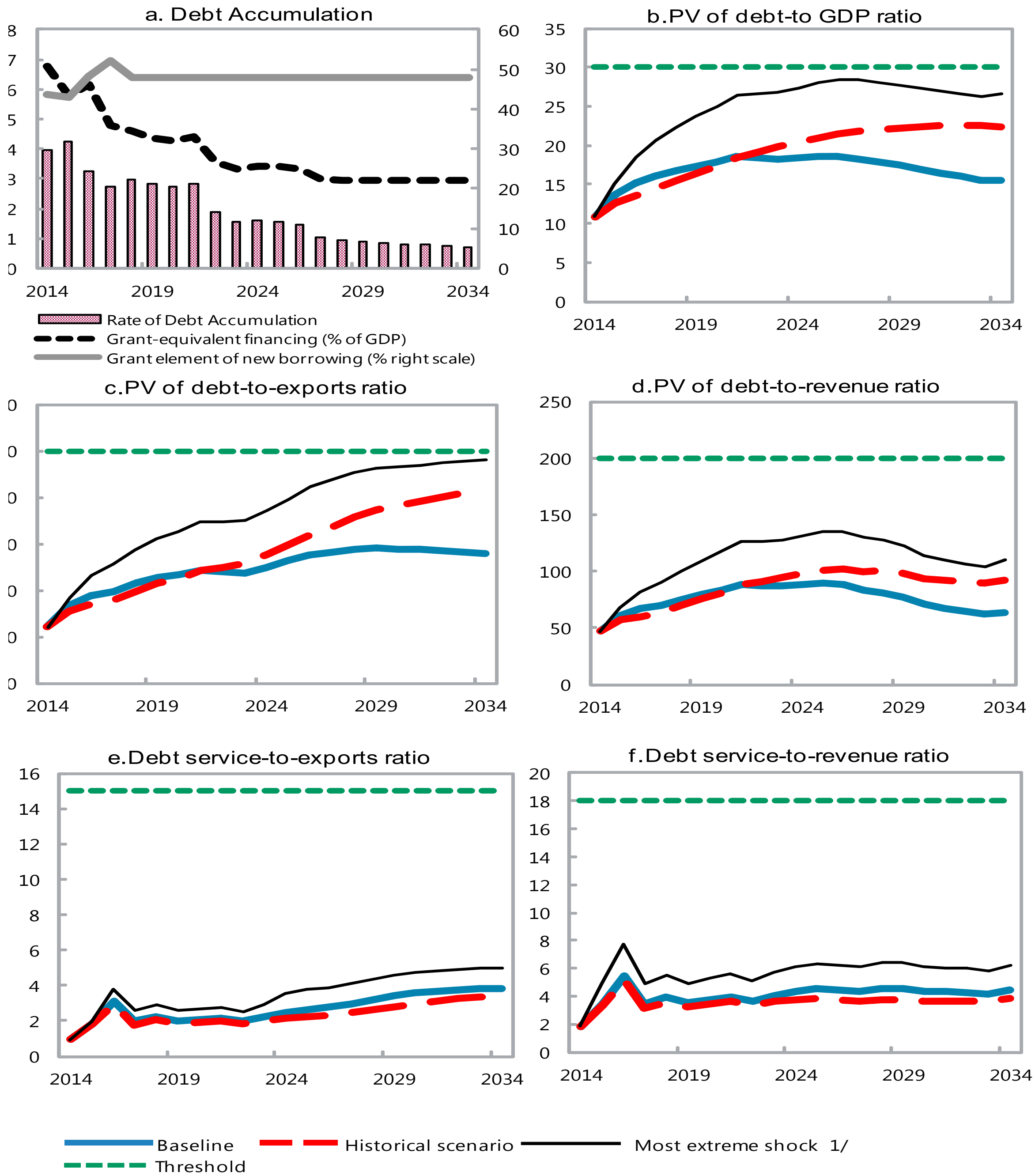
	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	15	19	20	23	24	24	21	17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	15	14	13	12	10	9	5	6
A2. Primary balance is unchanged from 2015	15	18	22	25	28	30	41	66
A3. Permanently lower GDP growth 1/	15	19	21	23	25	25	25	28
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	15	18	20	22	23	23	20	15
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	15	15	15	18	19	19	18	15
B3. Combination of B1-B2 using one half standard deviation shocks	15	14	14	16	17	17	14	9
B4. One-time 30 percent real depreciation in 2016	15	24	25	26	26	25	22	18
B5. 10 percent of GDP increase in other debt-creating flows in 2016	15	24	26	28	29	28	25	19
PV of Debt-to-Revenue Ratio 2/								
Baseline	48	59	67	84	84	83	79	55
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	48	44	42	43	37	31	18	21
A2. Primary balance is unchanged from 2015	48	59	72	94	100	106	158	222
A3. Permanently lower GDP growth 1/	48	60	68	86	87	87	93	93
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	48	59	66	82	82	81	75	50
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	48	48	51	66	68	68	68	51
B3. Combination of B1-B2 using one half standard deviation shocks	48	46	46	59	60	59	53	31
B4. One-time 30 percent real depreciation in 2016	48	77	81	95	91	88	82	59
B5. 10 percent of GDP increase in other debt-creating flows in 2016	48	77	85	103	102	100	94	63
Debt Service-to-Revenue Ratio 2/								
Baseline	3	3	3	2	4	5	7	5
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	3	3	3	1	3	4	4	2
A2. Primary balance is unchanged from 2015	3	3	3	2	5	6	9	12
A3. Permanently lower GDP growth 1/	3	3	3	2	5	5	7	7
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	3	3	3	2	4	5	7	5
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	3	3	3	2	4	5	6	5
B3. Combination of B1-B2 using one half standard deviation shocks	3	3	3	1	4	5	5	4
B4. One-time 30 percent real depreciation in 2016	3	4	4	3	6	7	9	8
B5. 10 percent of GDP increase in other debt-creating flows in 2016	3	3	4	3	5	6	8	6

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

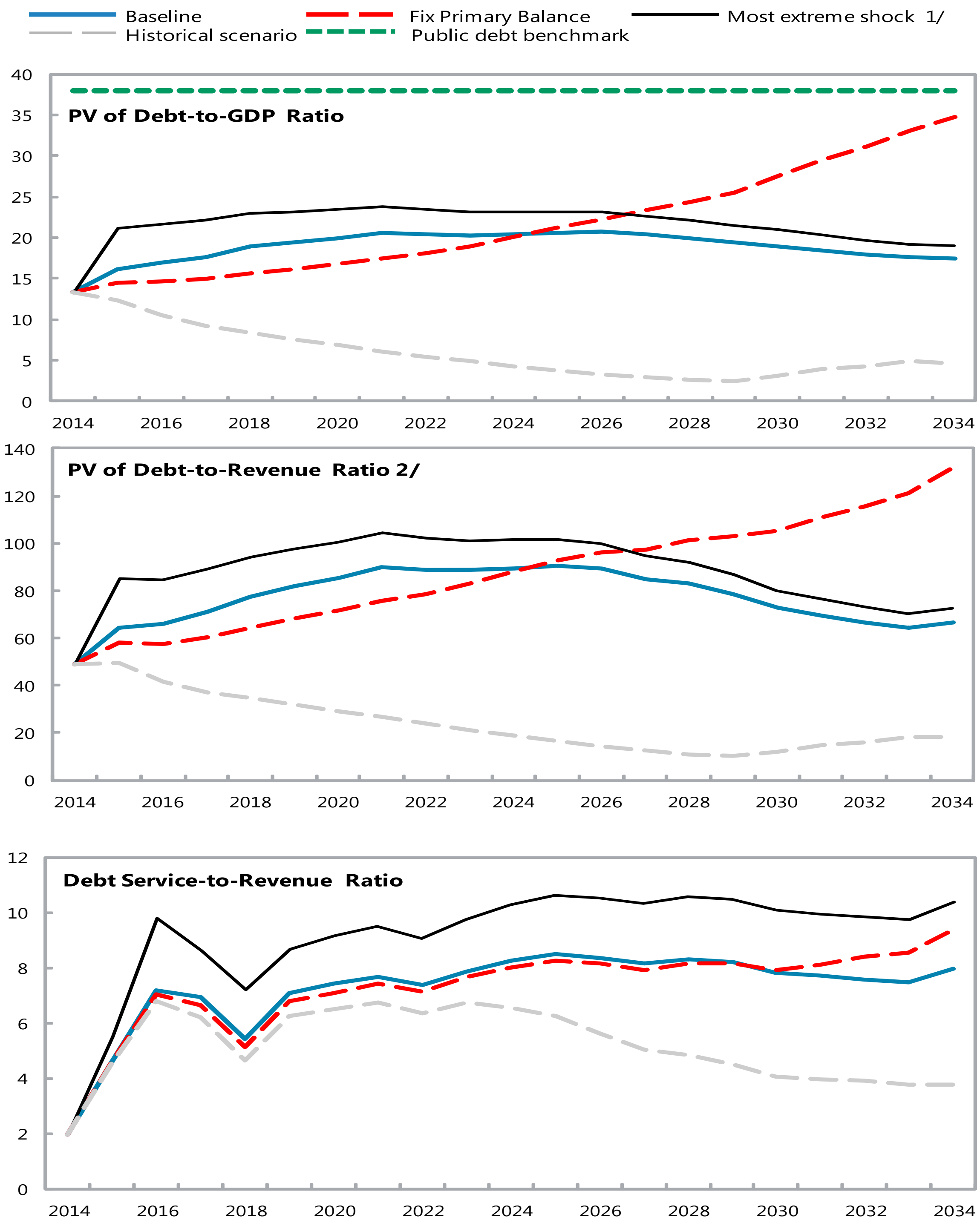
Figure 5. Liberia: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios (DSA for the 3rd ECF Review in June 2014), 2014–34[1]



Sources: Country authorities; and staff estimates and projections.

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

Figure 6. Liberia: Indicators of Public Debt Under Alternatives Scenarios (DSA for the 3rd ECF Review in June 2014), 2014–34 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

Statement by Chileshe Mpundu Kapwepwe, Executive Director for Liberia and Tharcisse Yamuremye, Advisor to Executive Director
December 21, 2015

Introduction

My authorities thank the Executive Board, Management and Staff for their continued support to Liberia especially during the Ebola outbreak. As a result of the large–scale international response to the crisis and the authorities' efforts to implement policy measures aimed at getting to and maintaining zero new infection, the World Health Organization (WHO) on September 3, 2015 declared the country Ebola-free. However, the long lasting effects of the Ebola crisis on economic and social development require significant resources to boost economic activity and strengthen health and social protection system. In this regard, the authorities are implementing the Economic Stabilization and Recovery Plan (ESRP) to guide the economy back to the path set by medium term development program, namely, Agenda for Transformation (AfT).

The authorities welcome the fourth review of the ECF which had been delayed by the Ebola crisis. In spite of difficult environment, some progress has been made in the implementation of the program. In addition, the authorities are implementing corrective measures to improve program performance. Consequently, the authorities request the Executive Board to support the completion of Fourth review under the ECF arrangement. They are also requesting for waiver of nonobservance of performance criteria, modification of performance criteria, and rephrasing and extension of the arrangement to end-December 2016.

Recent Economic Development and Outlook

The Liberian economy was hit by a second shock related to the decline of commodity prices. Economic recovery is now taking hold, albeit at a slow pace. Real GDP growth stood at 0.7 percent in 2014 while 2015 real GDP growth is projected to average 0.3 percent, driven mainly by services amidst the decline in commodities exporting sectors, especially iron ore and rubber. However, despite the difficult macroeconomic outlook, the momentum in the development of services and resumption of gold extraction is expected to accelerate economic growth to around 3.9 percent in 2016. As confidence improves, growth is projected to average around 4.9 percent in 2016 - 2018. However, the authorities are aware of material downside risks related to a protracted weakness in global commodity prices would contribute to further decline in exports, tax revenue and production in the mining sector.

In the context of lower international rice and oil prices, along with small currency depreciation due to the CBL's foreign exchange market interventions, inflation declined from 13.5 percent in September 2014 to 6.5 percent in September 2015. Inflation is expected to remain in single digits at about 8 percent in 2015 – 2016, and decline to about 7.1 percent in 2018.

The current account deficit widened from about 28 percent of GDP in 2013 to 31 percent in 2014 due to the significant decline in exports which was partially offset by higher Ebola related current transfers. As the commodities prices continue to decline, the current account deficit is projected to further widen to 39 percent of GDP in 2015 due to the drop in the value of iron ore and rubber exports. Gross international reserves dropped from US$411 million at end 2014 to US$394 million in September 2015 which covers 2.1 months of total imports. The current account deficit is projected to improve slightly from 36.9 percent of GDP in 2016 to 32.7 percent of GDP in 2018.

Program Performance

In spite of the difficult environment related to the Ebola crisis, most end-June 2014 performance criteria (PCs) and indicative targets (ITs) required for fourth review were met, except the revenue floor (PC) owing to shortfalls in tax and non–tax collection, the floor on net foreign exchange position of the CBL (PC), and the ceiling on net domestic assets (NDA) (IT), missed with a small margin.

Constrained by a limited functioning of public services, the implementation of structural benchmarks was difficult. Nevertheless, the authorities made some progress. Indeed, three out of seven structural benchmarks for end-March and end-June 2014 including payroll cleanup, publication of FY2016 budget calendar, and pilot on integration of credit financed projects into Integrated Financial Management Information System (IFMIS) were met. Some indicative targets including non–concessional borrowing and accumulation of external arrears for end-December 2014 were met.

The program performance was broadly disrupted by the Ebola crisis. Going forward, the authorities are committed to implement structural reforms. In this regard, they are ready to implement a number of structural reforms including improving cash management and rolling out the IFMIS to 17 additional spending entities.

Fiscal Policy

The authorities intend to maintain accommodative fiscal policy stance to alleviate Ebola and commodities prices shocks while safeguarding macroeconomic stability. In this regard, public spending will be allocated towards the post Ebola recovery plan to support key priorities including health and education, infrastructure, agriculture and private sector. To streamline public spending, the authorities also aim to strengthen the procurement system and address deficiencies in spending controls highlighted in GAC audit report published in June 2015.

Given the importance of the commodity exporting sector, the authorities continue to engage with the relevant investors in the sector to safeguard their investments. The authorities are committed to compensate revenues shortfalls or undertake expenditure cuts as required. To increase revenue mobilization, the authorities recognize the need to strengthen the capacity of Liberian Revenue Authority (LRA), and enhance tax administration.

The authorities are committed to continue to implement Public Financial Management (PFM) reforms to improve budget credibility, financial accountability, transparency and reporting.

To this end, several measures are required, including the preparation of the Medium–Term Expenditure Framework (MTEF) budgeting, strengthening IT system to support PFM operations, and improve the management of Treasury Single Account. In addition, the authorities will continue to improve the quality of spending by enhancing public investment planning and execution.

Monetary and Financial Sector Policies

The CBL will continue to implement monetary and exchange rate policies to anchor inflation expectations. In this regard the CBL will continue efforts to strengthen liquidity management of the Liberian - dollar and intends to continue intervening in the foreign exchange market to smooth exchange rate volatility, while maintaining flexibility. To increase international reserves and cope with external vulnerabilities, the CBL will implement measures including strengthening the operational efficiency through prudent budget and update the investment guidelines to improve safety and liquidity of the international reserves.

The CBL is developing a broad framework to strengthen financial stability. To alleviate the impact of the Ebola crisis, the CBL adopted exceptional measures including specific regulations to reduce provisioning burdens on NPLs associated with the Ebola crisis, extending repayment periods on loans related to CBL's stimulus initiative, and paying off the outstanding loan obligations in Liberian dollars of all private schools to banks. The CBL plans to phase out the measures by end-December 2015. In addition, the Central Bank will continue to strengthen financial sector by improving oversight credit risk management, developing a crisis preparedness and management framework, and strengthening financial sector regulation.

Debt Management

Liberia's risk of external debt distress has increased from low to moderate. The deterioration of the external debt is mostly due to the double shocks stemming from the Ebola crisis and the sharp decline in commodity prices. The shift to a moderate risk rating introduces changes on external borrowing targets under the new debt limits policy. To implement the new debt limits policy, the authorities will strike a balance between debt vulnerabilities and development needs. In this regard, they are reviewing the current medium–term debt strategy. In addition, the authorities will continue to prioritize grants and focus on priority projects financed by highly concessional loans.

Structural Reforms

The authorities are implementing the Economic Stabilization and Recovery Plan (ESRP) to mitigate the post Ebola shocks and lay a foundation for sustainable economic growth and poverty reduction. The main goals of the Economic stabilization and recovery plan are threefold: increasing output and growth, strengthening resilience and reducing vulnerability, and strengthening public finance. To boost economic growth and increase job creation while reducing vulnerabilities, priorities are focused on agriculture, infrastructure, health and education. The authorities will continue to improve business climate to develop private sector and spur economic diversification.

Conclusion

The Liberian authorities continue to experience significant challenges as they address the impact of Ebola crisis. Although the containment measures have been largely effective, there remain risks of recurrence. In addition, potential downside risks related to slow growth in emerging markets, less financial resources to support ESRP, and the withdrawal of UNMIL could affect the economic recovery. However, the authorities with the support of development partners are committed to address these issues and maintain macroeconomic stability while implementing ESRP to get the economy back on a sustainable and inclusive growth path. In this regard, they appreciate the support provided by the Fund and look forward to further collaboration in terms of policy advice, technical assistance and mobilizing support from other development partners. The authorities are requesting Board approval of the proposed decision to support their efforts to mitigate post – Ebola shocks and revitalize economic growth.