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LIBERIA

February 2015

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND DEBT RELIEF UNDER THE CATASTROPHE CONTAINMENT AND RELIEF TRUST—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBERIA

In the context of the Request for Disbursement under the Rapid Credit Facility and Debt Relief under the Catastrophe Containment and Relief Trust, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 23, 2015, following discussions that ended on December 23, 2014, with the officials of Liberia on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on February 6, 2015
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Liberia.

The document listed below has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Liberia*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

LIBERIA

February 6, 2015

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND DEBT RELIEF UNDER THE CATASTROPHE CONTAINMENT AND RELIEF TRUST

EXECUTIVE SUMMARY

Background. In spite of a declining trend in new cases over recent weeks, the Ebola outbreak continues to cripple the Liberian economy. Economic activity has declined significantly, and fiscal and external financing needs are more pronounced than envisaged at the time of the Extended Credit Facility (ECF) augmentation. The authorities remain committed to the broad objectives of the ECF program, but, with the focus now on addressing the emergency, there are delays in advancing structural reforms. Large financing gaps are estimated for 2015–16.

Request. The authorities are requesting a disbursement under the Rapid Credit Facility (RCF) of SDR 32.3 million, equivalent to 25 percent of quota, as well as debt relief under the Catastrophe Containment and Relief (CCR) Trust in an amount equivalent to 20 percent of quota (SDR 25.84 million) to help bridge the significant financing needs caused by the Ebola outbreak.

Program status. An ad hoc ECF program review, including augmentation of access equivalent to 25 percent of quota, was approved on September 26, 2014.

Key policy challenges

- Fiscal policy should remain accommodative to meet spending priorities relating to the epidemic, subject to the availability of financing.
- Greater exchange rate flexibility is desirable to maintain adequate reserves. Closely monitor banks' liquidity conditions and develop a framework for emergency liquidity support.
- Continued improvements in public financial management and transparency in the use of external resources will be key to unlocking further donor budget support.

Appraisal. Staff recommends approval of the authorities' requests for a disbursement under the RCF and debt relief under the CCR Trust given the extensive economic damage caused by the Ebola outbreak and based on the authorities' updated policy intentions and commitments and the urgency and size of the balance of payments needs.

Financing. The RCF disbursement together with debt relief would help cover about a third of the external and fiscal financing gaps for 2015, and would help catalyze further donor support. The authorities have committed to take the necessary measures to address any residual financing gap.

Approved By
Abebe Aemro Selassie (AFR) and Chris Lane (SPR)

Discussions took place via videoconference during December 5–23, 2014. Staff representatives comprised Ms. Deléchat (head), C. Amo-Yartey (resident representative), R. Chawani, A. Oshima (all AFR), and S. Guo (SPR).

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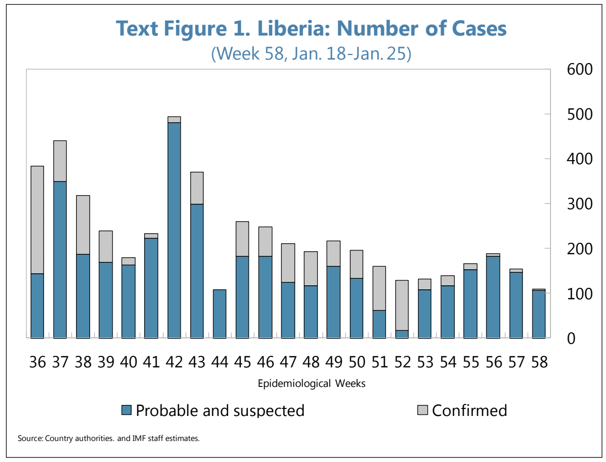
BACKGROUND AND RECENT DEVELOPMENTS

1. **The recent slowdown in the rate of new Ebola infections is positive news, but sustained efforts will be needed to preserve these gains**. In recent months, the government's strong efforts, including promoting safer burial practices and a vigorous campaign to educate the public on how to avoid infection have translated into a slower rate of new infections at the national level. Still, the World Health Organization (WHO) warns that under-reporting of new Ebola Virus Disease (EVD) cases and deaths persist. The total cumulative number of cases through January 25, 2015 stood at 8,577 with 3,694 deaths (Text Figure 1).[1]



2. **Food insecurity is rising in the wake of the Ebola outbreak**. The World Food Program and the Food and Agriculture Organization estimate that the 2014 harvest would be about 8 percent lower than in 2013. As of November 2014, a total of 630,000 people (14 percent of the population) are facing severe food insecurity, of which 170,000 due to the outbreak. These numbers could grow to 750,000 and 290,000, respectively, by March 2015, if measures to scale up safety nets are not implemented promptly. Government and international assistance would also be needed to cover an estimated additional 90,000 tons gap in rice imports in 2015.[2]

3. **The ruling party's poor performance in the mid-term senatorial elections could compromise implementation of the president's legislative agenda through the remainder of her term**. The delayed election to replenish half of the Senate's seats took place on December 20, 2014 amid low voter turnout. The ruling party's majority in the Senate shrunk to 8 seats (from 10 in 2011), as incumbent senators including key allies of the President lost their seats.

4. **Available data point to a more severe and broad-ranging impact of the outbreak than previously anticipated** (Box 1). The global commodity price shock is further exacerbating balance of payments pressures and weakening growth prospects.

- *Real GDP is now projected to have expanded by only 0.5 percent in 2014, compared with a 2.5 percent expansion expected at the time of the ECF augmentation, reflecting further declines in most sectors* (Figure 1). Monthly production of iron ore, cement and beverages in third quarter was estimated at about 20 to 50 percent of the average in the first half of 2014, when those categories registered strong growth (Box Figure 1).

[1] Cumulative cases include "suspected" and "probable" cases in addition to 3,138 "confirmed" cases.

[2] FAO/WFP Crop and Food Security Assessment, Liberia, December 17, 2014.

- *Inflation pressures stemming from food price increases are being mitigated by the drop in world oil prices*. Inflation increased from 8.5 percent (y/y) at the end of 2013 to 13.5 percent (y/y) in September, but declined to 7.7 percent in December 2014 (y/y), much lower than the 13.1 percent (y/y) anticipated at the time of the ECF augmentation (Box Figure 1 and Figure 1).
- *Following a 9 percent depreciation in the first half of the year, by December 2014 the exchange rate had appreciated closer to its December 2013 level*. Additional intervention of US$12.9 million by the Central Bank of Liberia (CBL) between July and November 2014, issuance of CBL notes and increased availability of U.S. dollars contributed to stem exchange rate pressures. Net foreign reserves declined from US$235.8 million in June to US$227.9 million at end-December 2014 (Figure 2).
- *The central government's FY2014 (ending in June 2014) fiscal deficit remained broadly unchanged at about 1.2 percent of GDP compared with FY2013* (Figure 1), owing to significant under-execution of public investment and the impact of the payroll cleanup on the wage bill. The revenue perfomance in the first half of FY2015 is broadly in line with the revised budget.
- *The current account deficit is estimated to widen in 2014, partially driven by a decline in exports* (Figure 1). Exports of iron ore have dropped by about 30 percent since June, owing to both price and volume effects.
- *Weak economic activity weighed heavily on commercial banks' operations.* Supply uncertainties led to bank deposit withdrawals (Figure 2). Real private sector credit growth dropped to 19.5 percent in November 2014 from 40.4 percent at end-November 2013 owing to stalling activity and banks' risk aversion. Nonperforming loans (NPLs) as a proportion of total loans reached 18.2 percent in November 2014 compared to 14.8 percent in December 2013 (Table 5). Stress tests simulations point to difficulties for 5 commercial banks in complying with capital requirements, should the NPL ratio exceed 25 percent.

PERFORMANCE UNDER THE ECF PROGRAM

5. **Program implementation capacity has deteriorated since the beginning of the crisis, leading to delays** (Table 7).

- Final performance against end-June targets was somewhat better than envisaged at the time of the ECF augmentation. Priority social spending for June 2014 as a share of total spending was revised upward and exceeded the indicative floor, so that only the revenue performance criterion (PC) and one indicative target (IT), the ceiling on net domestic assets, were missed.
- The government missed three out of ten end-September indicative targets as a result of the Ebola outbreak. The revenue and the foreign exchange reserve floors were missed by US$12.7 million and US$34.8 million, respectively. The floor on social spending was only narrowly missed.

6. **Structural reforms have been hampered by the limited functioning of the public sector due to the Ebola outbreak, although some notable milestones were achieved** (Table 8).

- The Ministry of Planning and Economic Affairs was merged with the Ministry of Finance to become the Ministry of Finance and Development Planning (MFDP), as of July 1, 2014.
- The government established the autonomous Liberia Revenue Authority (LRA), which also became operational on July 1, 2014. Revenue collection has so far been good, with most of the decline in revenue being linked to weaker economic activity.
- The Civil Service Management module of the IFMIS was installed. IFMIS was rolled out to 15 additional Ministries and Agencies (for a total of 23) and 5 donor-financed projects were brought onto IFMIS (the latter being a structural benchmark for the fifth ECF review).
- The Insurance Act was approved by the Legislature on November 20, 2014. The Act provides progressive use of enforcement measures to strengthen the oversight of the growing insurance sector (structural benchmark for the fourth ECF review).

POLICY CHALLENGES

A. Macroeconomic Outlook and Risks

7. **The macroeconomic situation remains very difficult**. The economy is projected to stagnate in 2014 and contract in 2015, due to the impact of the epidemic on all sectors through at least the middle of 2015, and in particular lower investment in mining and infrastructure. At the same time, the sharp drop in global iron ore prices is projected to contribute to a further decline in exports, tax revenue, and value-added in the mining sector. Headline inflation is estimated to remain in single digits in 2014 and to gradually decline in 2015, aided by the decline in world oil prices. Donor financing is expected to nearly cover the residual fiscal and external financing gaps in 2014. However, reserves coverage could decline to approximately 1.3 months of imports in 2015 in the absence of additional financing. A gradual recovery is projected to take hold in 2016, led by a rebound in services (Text Table 1).

Text Table 1. Liberia: Selected Economic Indicators, 2014–16

	2014		2015		2016	
	Third Review	Proj.	Third Review	Proj.	Third Review	Proj.
(Annual percentage change)						
Real GDP	5.9	0.5	6.8	-1.4	7.2	5.0
Of which: Mining & panning	4.4	1.5	4.8	-8.8	6.6	9.8
Real GDP per capita, excluding mining sector (U.S. dollar)	197	185	205	180	215	183
Consumer prices (annual average)	8.3	9.9	7.7	7.9	7.2	7.8
(Percent of GDP, fiscal year)						
Overall fiscal balance, including grants	-3.8	-1.2	-7.1	-7.1	-5.4	-9.5
Overall fiscal balance, excluding grants	-7.7	-4.9	-9.7	-15.6	-8.2	-12.1
Current account balance	-46.5	-31.9	-35.4	-40.2	-21.5	-27.8
Gross official reserves (months of imports)	2.8	2.5	3.0	2.3	3.0	2.4

Sources: Liberian authorities and IMF staff estimates and projections.

8. **This outlook is however subject to considerable uncertainty and significant downside risks**. The baseline projections assume that the recent epidemiologic trend will continue, with the disease being eradicated by mid-2015. However, a weakening of efforts to fight the disease could lead to a surge in new cases. The difficulty to reach those infected in remote rural areas could also cause the disease to become entrenched, with lasting damage to private investment. Rising poverty and food insecurity, if not addressed by deploying safety nets, could lead to social unrest. The risks associated with the Ebola epidemic are compounded by the seemingly permanent slump in iron ore prices, which could also contribute to dent medium-term growth prospects.

B. Fiscal Policy Response to the Ebola Outbreak

9. **The FY2015 budget deficit is set to expand significantly in response to the crisis**. The FY2015 budget was signed into law on November 27, 2014. Compared with the draft budget presented to Parliament in June 2014, the domestic revenue envelope is lower by US$87 million (4 percent of GDP), reflecting the decline in economic activity (Text Table 2). Current expenditure would increase by US$65 million (3 percent of GDP) due to direct and indirect Ebola-related spending, mostly support for health, education, agriculture and small and medium enterprises (SMEs). In spite of stalled project implementation in the first half of the fiscal year, the budget also aims at maintaining total capital spending envisaged in the draft budget at US$97 million. This includes an allocation of US$34 million for road projects, compared with US$17 million in the original budget.[3] As a result, the budgeted fiscal deficit excluding grants increases sharply to 9 percent of GDP from 1½ percent of GDP in the pre-Ebola draft budget. An additional amount of US$41.2 million in Ebola-related donor financing was channeled off-budget, mostly to finance health workers' salaries and hazard pay. Including off-budget activities, the FY2015 overall deficit excluding Ebola-related

Text Table 2: Liberia: FY2015 Budget
(Millions of U.S. dollars)

	Pre-Ebola Draft	Approved
Revenue and grants	531.3	526.6
Revenue	504.2	417.2
Tax revenue	402.2	326.5
Non-tax revenue	102.1	90.8
Grants	27.1	109.4
of which : Ebola-related	-	85.1
Expenditure	535.0	599.5
of which : Ebola-related	-	41.5
Current expenditure	438.8	502.6
Compensation of employees	212.0	222.6
Goods and Services	121.2	114.5
Interest Payments	9.5	9.5
Transfers and subsidies	96.0	156.1
Capital expenditure	96.3	96.9
Overall balance	-3.7	-72.9
Total financing	3.7	72.9
External borrowing, net	11.2	43.9
of which : Ebola-related	-	50.7
Domestic borrowing, net	-7.5	29.0
of which : Ebola-related[1]	-	57.9
Memorandum :		
Off-budget Ebola-related spending		41.2
Ebola Trust Fund	-	15.3
Project Financial Management Unit	-	23.4
Support to Ministry of Health	-	2.5
Off-budget non-Ebola projects	182.6	107.5
of which : Mt. Coffee	54.5	62.6

Sources: Liberian authorities and IMF staff estimates.

[1] IMF ECF augmentation of US$47.9 million was provided to the Government of Liberia via the Central Bank of Liberia.

[3] During the third review of the ECF program, the authorities' uncovered unfunded spending commitments on road projects awarded to road contractors totaling US$73.4 million. Most of these projects did not comply with all the requirements of the public financial management and procurement laws. The government instructed the General Auditing Commission to conduct a financial audit of the Ministry of Public Works and also review procurement and contractual practices in key ministries. Understandings were reached with the government that payments would be made only after the completion of the audit, provided that corresponding amounts be brought on-budget.

grants is projected to expand to 13 percent of GDP, compared with 7 percent envisaged at the time of the third ECF review (Tables 3a and 3b).

10. **In light of downside risks to budgeted revenue and financing, careful expenditure prioritization is warranted**. Staff cautioned that the domestic revenue envelope appeared ambitious, while budget financing also relied on exceptionally high donor support. Although the LRA is showing strong collection performance to date, staff indicated that there was still high uncertainty as to the evolution and impact of the outbreak and that, based on historical elasticities, projected domestic revenue could be lower than envisaged in the budget. The authorities clarified that the LRA had been implementing measures to strengthen tax administration, including consolidating the taxpayer registry and opening accounts for all large taxpayers, which should contribute to enhancing tax collection, and that they were confident that non-tax revenue objectives were within reach. Nonetheless, they indicated that about US$40 million in committed budget support was at risk and that another US$50 million was contingent on parliamentary approval. Staff and the authorities agreed that timely disbursement of donor budget support commitments was key to ensuring uninterrupted spending execution.

11. **The public investment program appears ambitious, while few resources are being allocated to safety nets**. Staff noted that the public investment plans remained at the pre-Ebola level, whereas they were already high given historical execution rates. Furthermore, project implementation to date had been stalled by the crisis and delays in budget approval, with implementation capacity severely strained. Staff expressed concern that the across-the-board cuts in current expenditure might prove difficult to sustain. Staff also urged the authorities to reallocate some budgetary resources toward scaling up of safety nets to address rising food insecurity. The authorities were optimistic that the Public Sector Investment Program would be implemented as planned, as they had been working closely with Ministries and Agencies to ensure cash and procurement plans were ready. On safety nets, they indicated that their budgeted agriculture support program was targeted at providing seeds and fertilizers to farmers and support the 2015 planting season. They also noted that US$10 million in Work Bank funding would be allocated to a cash transfer program, albeit targeted to a relatively small number of participants.

12. **The authorities emphasized that achieving broad-based growth post-Ebola remains a central pillar of their program**. To this end the government is seeking funding for its post-Ebola Economic Stabilization and Recovery Plan (ESRP). For FY2015, the plan includes US$174 million in off-budget projects covering various socio-economic supports and private sector stimulus. Of these projects, US$33 million has been brought on-budget for recovery of health and education systems and support of agriculture and SMEs.

13. **The remaining financing gap for FY2016 could be significant**. The authorities confirmed that some donors had front-loaded interventions already in the pipeline for future years in order to provide immediate assistance, and that only US$30 million has been confirmed as budget support

for FY2016. They agreed with staff that the remaining potential financing gap could amount to about US$104 million.[4]

14. **The authorities reiterated their commitment to strengthening the budget process and improving public financial management**. They indicated that, as part of a package of measures to address the emergency they made payments amounting to US$26.7 million to road contractors to allow them to settle their bank loans and ensure adequate banking system liquidity. They noted that, as the planned audit of the off-budget road contracts had been somewhat delayed owing to the crisis, the payments made had been based only on valid contracts for which work had been certified, and vetted by the General Auditing Commission (GAC). They confirmed that further payments to contractors out of the US$34 million budget allocation would await finalization of the audit of the off-budget road contracts (now expected by mid-February 2015). Staff urged the authorities to liaise with the GAC to speed up work on the broader review of contractual and procurement practices in key spending ministries. In addition, to ensure transparency and accountability in the management of resources channeled through the Ebola Trust Fund, the government is in the process of selecting a reputable international accounting firm to assist with the financial management of the Ebola Trust Fund. Staff also welcomed the publication by the authorities of detailed reports of budget execution for the first quarter of FY2015, as well as a financial report accounting for additional Ebola-related assistance commitments.

C. Monetary and Financial Sector Policies

15. **The authorities and staff agreed that allowing more exchange rate flexibility and preserving adequate reserves had become a priority in the context of a prolonged crisis**. The authorities emphasized that additional intervention had been targeted at covering demand for U.S. dollars for essential imports and anchoring inflation during the crisis. However, they gradually lowered total monthly interventions from US$10.7 million in July to US$3 million in November, in the context of reduced exchange rate pressures and a decline in inflation below its September peak. The CBL also reiterated its plans to continue to issue notes as an additional tool to mop up Liberian dollar liquidity and to strengthen its liquidity management framework.

16. **Staff emphasized the need for the CBL to deal with all eligible counterparties in the foreign exchange market through commercial banks in order not to distort the efficient functioning of the market**. About one half of the additional CBL interventions in July–November were conducted via "direct mopping".[5] Staff noted that direct mopping raises concerns about policy credibility and consistency as the CBL's new Foreign Exchange Sale Auction Rules and Regulations

[4] The FY2016 fiscal envelope is mainly based on staff's projections of non-mining GDP, as well as committed project support by development partners. Fiscal financing gaps for calendar years 2015 and 2016 are estimated about US$77 million and US$27 million, respectively.

[5] Direct mopping involves the CBL buying Liberian dollars directly from businesses and individuals in varied market districts of Monrovia and selling them U.S. dollars at the daily auction rate.

confine all allocation of foreign exchange to the weekly auction. The authorities indicated that they discontinued direct mopping in November 2014 as all concerned businesses and individuals were now able to access foreign exchange through the banking system.

17. **In late December 2014 the CBL announced a set of measures to mitigate the impact of the Ebola crisis on banks, entailing a mix of temporary regulatory forbearance and direct economic interventions**. The CBL envisages temporary regulatory forbearance for those banks whose capital risks being compromised, in the form of an easing of provisioning norms for loans that were performing prior to the Ebola outbreak and new NPLs related to the crisis, and waiving default charges and interest accruals on delinquent facilities, the latter to be assessed on a case-by-case basis. One-off direct economic interventions include extending repayment periods on loans under the ongoing CBL credit stimulus initiatives,[6] bailing out about US$1 million in private schools' debts to commercial banks, and re-channeling the Liberian dollar equivalent of about US$300,000 in loans from an ongoing credit stimulus scheme to microfinance institutions, which have been quite severely affected by the outbreak (Box 1).

18. **Staff emphasized that the CBL should refrain from extending regulatory forbearance and engaging in quasi-fiscal activities**. Staff noted that, while the Ebola outbreak could warrant some temporary and well-defined regulatory leniency, headline financial soundness indicators (FSIs) point to sufficient scope for banks to deal with the shock at the moment. Reductions in provisioning requirements would obscure banks' true asset quality and overstate capital adequacy. Interest waivers could also provide windfall gains to borrowers with capacity to service their loans. More importantly, staff reiterated that the CBL should refrain from direct economic interventions. While recognizing the temporary nature and small scale of the envisaged financial support to schools, staff noted that it entailed reputational risks, and that the CBL ought to refrain from such interventions and explore alternative financing sources.

19. **The authorities and staff concurred on the continued need for close monitoring of banking system liquidity to address vulnerabilities and preserve confidence**. The authorities noted that they are closely monitoring banks' liquidity positions and that, to date, there were no signs of imminent problems. However, should the situation deteriorate, they agreed with staff that making the reserve requirement framework more flexible, as recommended by Fund's technical assistance, would be appropriate. The authorities informed staff that the parents of most foreign banks would be unlikely to provide liquidity support to their subsidiaries, while it would be difficult for the CBL to resolve potential liquidity disruptions in a highly dollarized environment given the low reserve levels. They reiterated their request for Fund technical assistance to design a framework for the provision of emergency liquidity assistance to illiquid but solvent banks.

[6] See Box 4, Country Report No. 13/365.

REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND DEBT RELIEF UNDER THE CATASTROPHE CONTAINMENT AND RELIEF TRUST

20. **The authorities are requesting a disbursement under the RCF in an amount equivalent to 25 percent of quota and a grant under the CCR Trust equivalent to 20 percent of quota to help address urgent balance of payments needs resulting from the Ebola crisis**. The epidemic has generated extensive economic damage and long lasting reconstruction-related fiscal and balance-of-payment needs, deteriorated the economic outlook, reduced the narrow export base, and weakened public financial management capacity. The qualification criteria for an RCF are met as the large financing gaps, if left unaddressed, would result in significant economic disruption, and the balance-of-payments need is expected to be resolved within one year with no major policy adjustments.

21. **The criteria for concurrence of an RCF and ECF arrangement are also in place**. Disbursements under the ECF arrangement are delayed due to the weakening of program implementation capacity, and the balance of payments need to be addressed is caused by a sudden exogenous shock. In addition, there is high uncertainty regarding the evolution of the epidemic. The authorities have however reiterated their commitment to the ECF program and indicated that they would wish to get the delayed fourth review completed as soon as practicable, while re-phasing subsequent reviews.

22. **The proposed disbursement under the RCF would contribute toward closing the large external financing gap in 2015**. Staff estimates that the current account deficit would further widen from 32 percent of GDP in 2014 to 40 percent of GDP in 2015. Higher imports related to the emergency and the decline in key exports (iron ore and rubber) would generate an external financing gap of about US$127 million in 2015. Donors have pledged about US$1.1 billion in additional Ebola-related assistance, including 231 million in budget support. Disbursements of outstanding commitments could help fill part of the remaining external financing gap in 2015, although most of these contributions are matched by additional imports (Text Table 3).[7] In the absence of additional financing or adjustment, reserves coverage could decline to approximately 1.3 months of imports by end-December 2015 compared to 2.9 months of imports envisaged for 2015 in the staff report for the ECF augmentation. Staff supports the authorities' request for an RCF disbursement in light of the urgent nature of the external financing need.

Text Table 3. Liberia: Official Ebola-Related External Financing
(Millions of U.S. dollars)

	Planned	*of which*: Budget support	Disbursed	*of which*: Budget support
Total	1,122	231	284	119
Bilateral donors	748	75	38	30
International Financial Institutions	374	156	246	89
African Development Bank	76	31	31	31
IMF	131	95	48	48
World Bank	167	30	167	10

Sources: Liberian authorities, United Nations, and IMF staff estimates.

[7] Bilateral commitments include a US$551 million commitment by the U.S. government, most of which is destined to finance the U.S. military support and operations of the Center for Disease Control. Bilateral and multilateral commitments also include US$212 million in funding for U.N. agencies, and US$507 million yet to be allocated.

23. **Liberia also requests a grant under the CCR Trust to cover future debt service to the Fund.** Liberia is eligible and qualifies for debt relief under the CCR Trust. Liberia is a PRGT-eligible country with an annual per capita income level well-below the prevailing IDA cut-off. In staff's view, the ongoing Ebola outbreak qualifies as a public health disaster under the CCR Trust: it has been deemed a Public Health Emergency of International Concern (WHO, August 8, 2014) and has so far spread to six countries in the region with isolated cases overseas. Staff considers that the macroeconomic policy framework put in place to address the balance of payments needs created by the public health disaster and the ensuing policy response of the authorities, as outlined in the letter of intent, are appropriate. As described in Box 1, the epidemic has severely affected the Liberian economy and would result in substantial external financing gaps, as well as severe real GDP and fiscal revenue loss and high expenditure pressure, both well in excess of 10 percent of GDP for 2014 and 2015, cumulatively (Text Table 4 and Table 2). Whereas donor interventions should mostly cover the 2014 external financing gap, a significant residual gap remains for 2015.

Text Table 4. Liberia: Impact of Ebola Outbreak

	2014 - 15
Cumulative real GDP loss, percent of GDP[1, 2]	18.4
Cumulative fiscal impact, percent of nominal GDP[2, 3]	19.0
Revenue loss[4]	10.7
Expenditure increase	8.3
Number of Cases, as of January 25, 2015	8,577
Deaths	3,694

Sources: Liberian authorities and IMF staff estimates.

[1] Difference between real GDP levels of Pre-Ebola and current frameworks, in percent of pre-Ebola real GDP. Pre-Ebola data refer to the ECF Third Review (July 2014).

[2] The cumulative ratio is computed as the sum of 2014 and 2015 annual ratios .

[3] Fiscal impact for 2014 is based on the difference between pre-Ebola draft budget and approved budget in percent of current nominal GDP. For 2015, the difference between projected fiscal outturn in pre-Ebola and current framework.

[4] Revenue loss includes not only decreases in tax and non-tax revenue but also the delayed and canceled grants and loans.

Text Table 5. Liberia: Projected Debt Service

(Millions of U.S. dollars)

	2015	2016	Debt Stock[3]
Multilateral	8.3	10.4	232.9
IMF	4.7	6.6	98.3
IMF (calendar year)	5.3	7.9	98.3
World Bank	0.6	0.6	76
AfDB	1.9	1.7	3.5
Other Multilateral	1.1	1.5	55.1
Bilateral	5.0	5.1	121.7
Bilateral:Paris Club	1.3	1.4	2.7
France[1]	1.3	1.4	2.7
Bilateral:Non-Paris Club	3.7	3.7	119
China			5.5
Kuwait	0.05	0.05	9.6
Saudi Arabia	0.4	0.4	18.5
Taiwan, Province of China[2]	3.2	3.2	85.4
Total	13.3	15.5	354.7

Source: Liberian authorities.

[1] The repayment will be redistributed to Liberia as development fund.

[2] The Government of Liberia is not servicing this debt due to the lack of diplomatic relationships.

[3] End of June 2014.

24. **Debt relief will help improve reserve build up to meet market demand for foreign exchange, and to mitigate the impact of external shocks, including the recent decline in iron ore prices**. Liberia is eligible for debt relief in an amount equivalent to 20 percent of quota or SDR25.8 million (about US$36 million, representing 25 percent of Liberia's total debt service to the IMF), which would fully cover debt service due until 2018. Debt relief from the Fund could also form the basis for additional relief from other official and private creditors (Text Table 5).

25. **Staff will undertake a comprehensive review of policies under the ECF-supported program at the time of the next ECF review**. Provided Ebola containment efforts bear fruit in the coming months, staff could hold the delayed fourth ECF discussions in the first half of 2015. At that time, the authorities could request to extend and rephase the ECF arrangement, which would require setting new program targets for one rephased review. Staff will continue to reach out to donors and make the case for more grant financing.

26. **Liberia's capacity to repay the Fund is adequate**. The country has established a good track record of timely payment of external obligations to creditors. Total Fund credit after the RCF

disbursement will amount to 103.8 percent of quota (Table 9). Overall, the risk of debt distress remains low, unchanged from the July 2014 DSA update, mainly owing to the temporary nature of the shock and slower-than-anticipated loan disbursements (Appendix II).

27. **A safeguard-assessment update was initiated in the context of the September ECF augmentation**. There have been delays in obtaining certain required information for the assessment, but staff is engaged with the CBL to obtain remaining items needed to complete the assessment.

STAFF APPRAISAL

28. **The Ebola outbreak's impact is deeper and stronger than previously anticipated, with potentially long-lasting effects compounded by the decline in commodity prices**. All sectors of the economy are being affected, not only through the mortality rate and pressure on health systems, but, mostly, through the risk-aversion behavior of domestic and international agents. As a result, the economy is projected to barely grow in 2014 and to contract by 1.4 percent in 2015. Inflation has edged up in recent months, although the recent decline in international oil prices is mitigating domestic price increases. The global commodity price shock is further exacerbating balance of payments pressures. Together with delays in public and private investment projects, a permanent slump in iron ore prices would significantly weaken medium-term growth prospects.

29. **The main short-term policy challenge is containing the Ebola outbreak**. While the recent decline in Ebola case incidence is welcome, the government and the international community must sustain the momentum in order to achieve the authorities' goal of zero new Ebola cases. Risks of another surge in cases are real, and sustained efforts and outreach are needed to convince the population to continue to strictly observe health safety protocols. Over the medium term, rebuilding a resilient health system remains a priority and staff welcomes the substantial amounts of donor support earmarked for that purpose.

30. **The fiscal deficit is expanding to meet spending priorities relating to the epidemic subject to the availability of financing**. The recently-approved revised FY2015 budget appropriately incorporates revenue losses and expenditure needs of about US$200 million relating to the Ebola outbreak, with expenditure reallocation and donor financing covering additional needs.

31. **Implementation of the FY2015 budget is fraught with considerable risks**. Enhanced efforts to strengthen tax administration and controls, and a determined push to collect contributions from public entities will be needed to realize domestic revenue objectives. The capital expenditure envelope appears ambitious in light of the late budget approval and weakened implementation, while deep cuts in recurrent expenditure may prove unsustainable. Careful and close monitoring of revenue and expenditure outturns is warranted, along with spending prioritization.

32. **Emergency safety nets must be deployed to address rising poverty and food insecurity**. The poor and vulnerable groups are being disproportionately affected by the epidemic. The lower 2014 harvest will translate into higher food insecurity through the next harvest, in late 2015. Planned

government support to agriculture is welcome, but more government and/or donor resources need to be allocated to direct transfers to the food insecure in the coming months.

33. **The authorities' commitment to continue strengthening the budget process and improve public financial management is welcome**. Staff regrets the partial payment of budgeted amounts for road contracts in advance of the delayed GAC audit, while noting efforts made by the authorities to ensure fiscal transparency and accountability. Going forward, enhanced coordination between the MFDP and implementing Ministries should help improve project planning and monitoring. Staff welcomes the publication of detailed reports on budget execution and on Ebola financing, as well as the authorities' intention to appoint an independent agent to assist with the financial management of the Ebola Trust Fund.

34. **Eradicating Ebola will require more time and additional donor resources, preferably grants**. Liberia's development partners have rallied and already committed substantial amounts of resources to support the government's fight against Ebola. Timely disbursements of these funds would be essential to ensure smooth implementation of the FY2015 budget. At the same time, significant external and fiscal financing needs remain, particularly for FY2016, which need to be covered by grants, inasmuch as possible, to avoid worsening Liberia's debt burden.

35. **Preserving foreign reserves and the CBL's ability to act as a lender of last resort in a dollarized banking system has become a priority in the context of a prolonged crisis**. In the context of declining oil and transport prices, the CBL should continue to scale back its interventions and allow some exchange rate flexibility, while continuing to regularly issue CBL notes and strengthening liquidity management. It is also imperative that the CBL refrain from engaging in new quasi-fiscal activities and explore alternative financing options for such interventions.

36. **The financial system appears resilient but vulnerabilities need to be closely monitored**. Excessively tight liquidity conditions could undermine credit growth and pose risks to financial institutions. These challenges call for continued close monitoring of monetary conditions, as well as the optimization of monetary management. In this context, staff welcomes the CBL's plans to develop a framework for the provision of emergency liquidity assistance to banks, supported by Fund technical assistance. Rising non-performing loans are a concern, but, in staff's view, do not warrant across-the-board regulatory forbearance at this point. Should the situation deteriorate further, such measures would need to be well-targeted and implemented in a transparent and consistent manner.

37. **Staff supports the authorities' request for a disbursement under the RCF and debt relief under the CCR Trust**. The RCF disbursement and debt relief under the CCR Trust aim at addressing urgent balance of payments needs in the context of a strong government commitment to address the crisis. The authorities remain committed to the ECF program. Nonetheless, program implementation capacity has been severely weakened by the outbreak. The authorities are committed to completing discussions on the delayed fourth review as soon as practicable.

Box 1. Liberia: Impact of Ebola Outbreak

The Ebola Virus Disease (EVD) outbreak is wreaking havoc on all aspects of Liberia's economy and society. Its short-term impact is broad-ranging, affecting economic and social outcomes, and it is also expected to have lingering effects on medium-term growth through delayed or cancelled investments. As evident during the SARS epidemic, the direct economic impact through reduced labor supply of those affected by the disease and pressure on health systems is dwarfed by the negative repercussions of the risk-aversion behavior by both domestic and international agents.

Short-term economic impact

In addition to the loss of human lives, the EVD outbreak has immediate effects on the Liberian economy mainly via reduced mobility and utilization of both labor and capital.

- *Real sector.* Limited supply of labor and capital has led to lower production and investment. Closure of borders and the quarantine have restricted travel, trade, and transportation. The departure of expatriate workers and international flight cancellations reduced hotel room occupancy rates and restaurant patronage. Agricultural production has declined owing to the limited labor supply. Withdrawal of labor has also affected mining activity delaying investment in the sector. Disruptions in movement and marketing of food have led to panic buying and shortages pushing up prices.
- *Fiscal sector*. Government revenue is estimated to decline significantly reflecting lower tax receipts and modest mining and other concession activity. Spending needs are increasing, requiring additional external budget support and re-prioritization of investment.
- *External sector*. Lower production volumes of rubber and iron ore have been compounded by the sharp drop in international prices, resulting in a fall in exports. Weak domestic activity has translated in the short term into lower imports and FDI.
- *Financial sector*. The outbreak poses a growing risk to banks owing mainly to high exposure (about 80 percent of total loans) to the most affected sectors. Given the weak economic activity, economic agents are encountering difficulties in servicing loans and requesting to reschedule payments. Nonetheless, to date banks' capital and liquidity buffers appear adequate. In contrast, the crisis has exerted a heavy toll on insurance companies owing mainly to low capitalization and exposure to expatriates' funding (about 40 percent of premium income). Microfinance institutions are also encountering severe distress, mirroring the outbreak's disproportionate impact on the informal sector, with most unable to withstand this shock.

Social impacts

- *Poverty and food security*. More than 80 percent of the population lives on less than US$1.25 a day in Liberia, and the majority relies on subsistence farming and trading. These informal workers, a majority of which are women, are the most affected by the loss of livelihood resulting from the outbreak, together with formal sector workers being laid off as businesses close. Surveys results indicate that 64 percent of urban self-employed and about 35 percent of rural subsistence farmers had lost their livelihoods by November 2014. Food insecurity is rising, owing to both supply disruptions and lower purchasing power, and additional imports of rice will be needed in 2015 to compensate for the lower 2014 harvest.

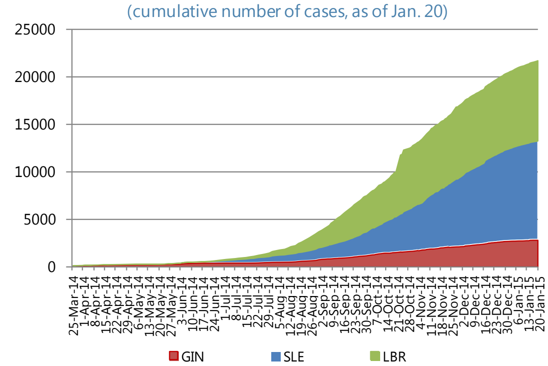
Medium-term economic impacts

- *Agriculture.* Disruptions to farming could cut the production cycle, leading to inability to prepare for next season especially for procuring seeds and fertilizers, which may delay the sector's recovery.
- *Investment.* FDI may also take time to recover as foreign companies may hesitate to come due to higher risk-aversion. Some infrastructure projects will be delayed as the government and donors focus their efforts on fighting the disease. Delays in mining and infrastructure investment will lower medium-term growth prospects.

Box Figure 1. Liberia: Economic Impact of the Ebola Epidemic

Liberia is among the most affected countries by the Ebola outbreak.

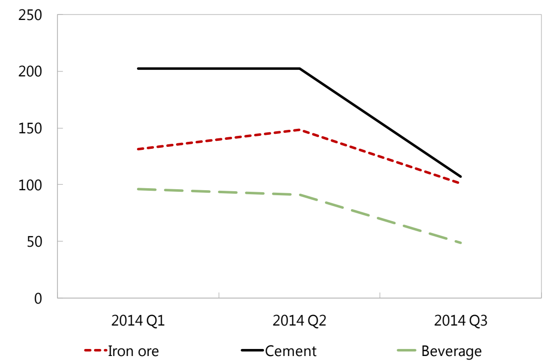
Evolution of West African EVD Outbreak
(cumulative number of cases, as of Jan. 20)



Source: Country authorities. Note: Includes suspected, probable, and confirmed cases.

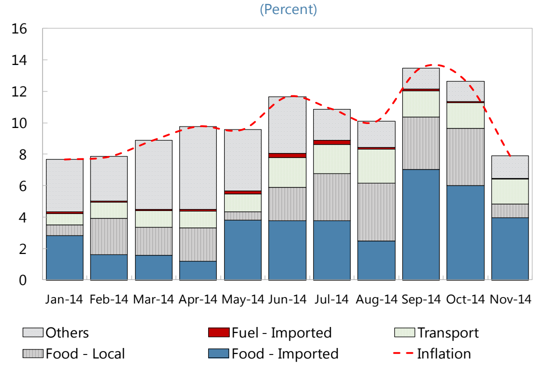
Compared with the first half of 2014, monthly production in August and September deteriorated.

Average Monthly Production Volume
(Average 2013 = 100)



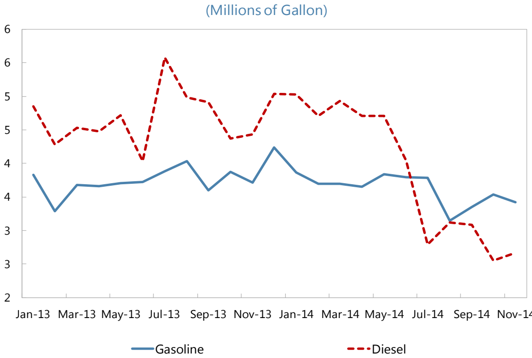
Inflation peaked in September, driven by a hike in imported food prices but has since dropped following a decline in world oil prices.

Contribution to Inflation
(Percent)



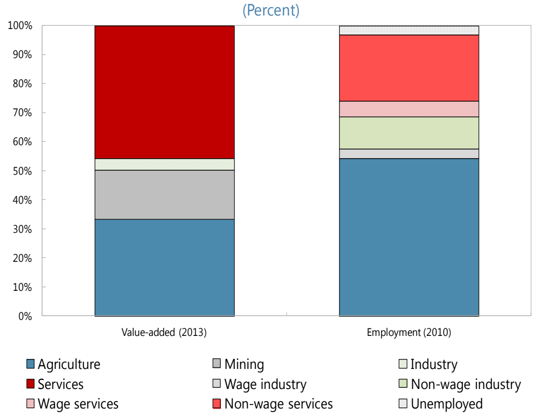
Diesel sales related to manufacturing and construction activities dropped in the third quarter, while a rebound in gasoline sales indicates some recovery in transportation services in September-October.

Monthly Fuel Sales Volume
(Millions of Gallon)



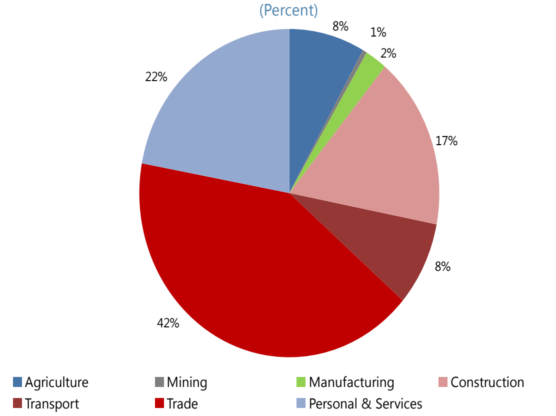
The majority of workers are in the sectors most affected by the outbreak.

GDP and Labor Allocation
(Percent)



Banks are mostly exposed to the trade, construction, and personal services sectors.

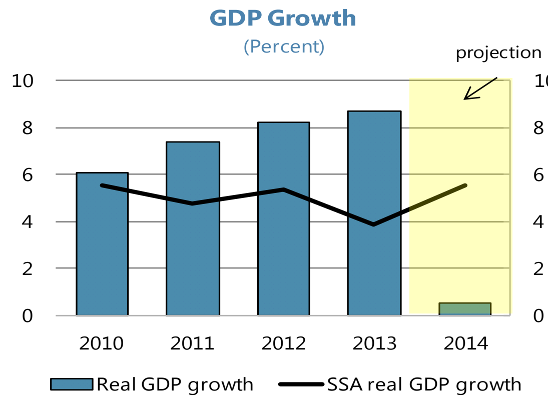
Sectoral Distribution of Loans
(Percent)



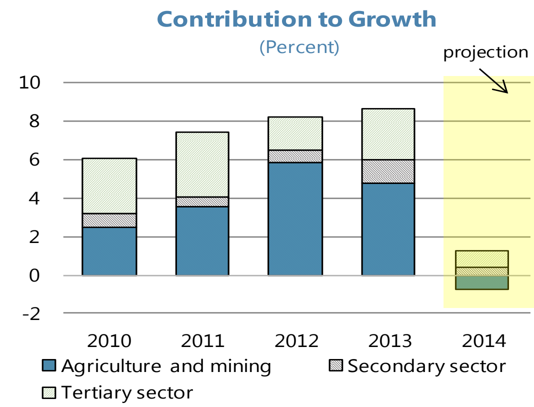
Sources: Liberian authorities and IMF staff estimations.

Figure 1. Liberia: Recent Economic Developments

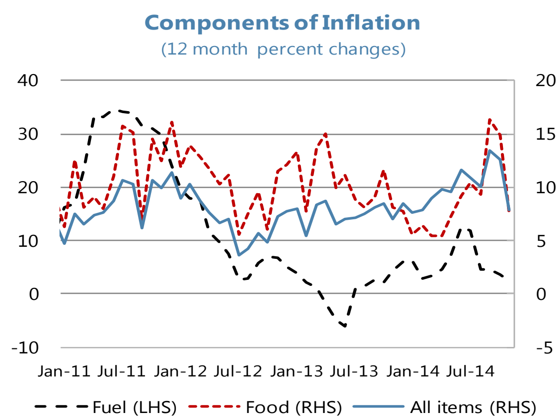
Economic activity is projected to decline sharply in 2014…



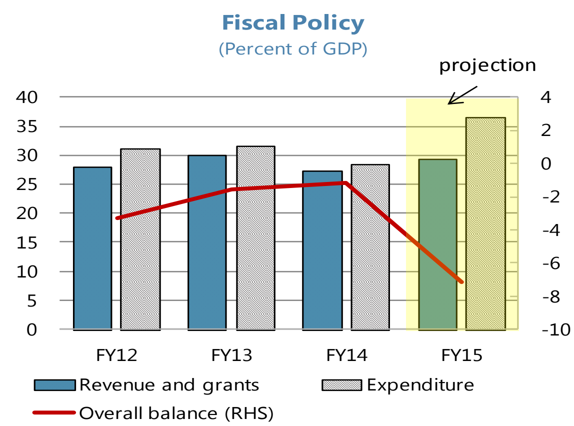
… driven by a contraction in agriculture and mining, as well as weak growth in services.



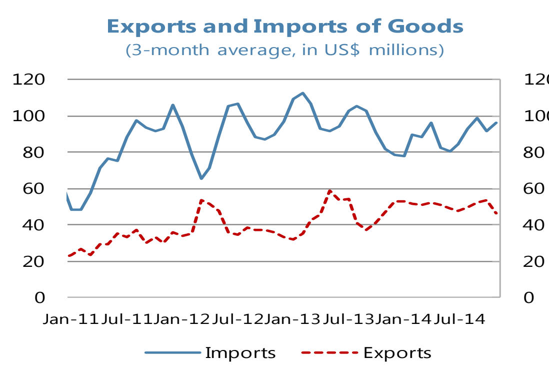
Inflation reached its highest level in the past five years driven by a sharp increase in food prices. However, fuel price inflation remained low reflecting the world oil prices decline.



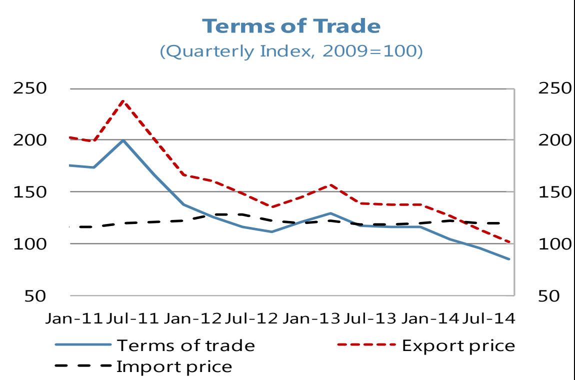
The fiscal balanced improved in FY2014 but a large deterioration is expected in FY2015 owing to lower revenue and higher expenditure.



Imports grew in the third quarter of 2014 reflecting aid-related goods and services inflows, while exports declined due to weak domestic production.



The terms of trade are deteriorating along with the decline in exports prices, particularly iron ore and rubber.



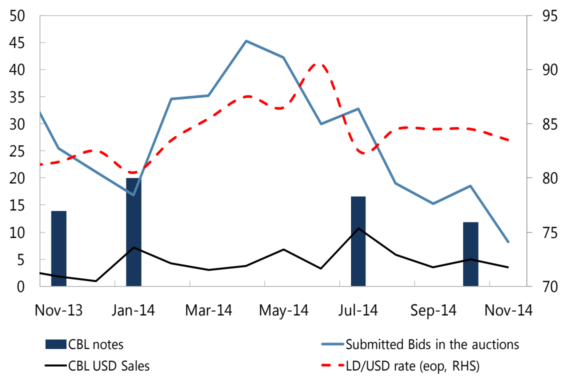
Sources: Liberian authorities and IMF staff estimations.

Figure 2. Liberia: Monetary and Financial Developments

Increased demand for U.S. dollars led the CBL to increase intervention in the foreign exchange market, putting pressure on the reserves position.

Demand and Supply in the FX Auctions

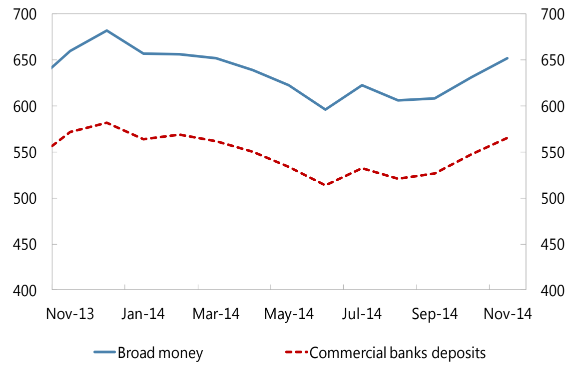
(Millions of U.S. dollars)



Broad money growth picked up in recent weeks, largely driven by Ebola support-related deposits.

Broad money

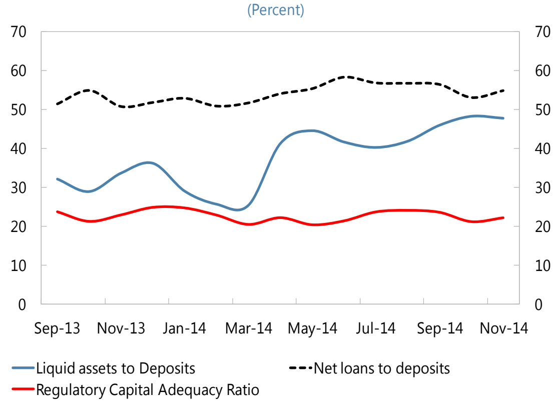
(Millions of U.S. dollars)



Overall banking system liquidity and capital buffers appear adequate with wide variations across banks…

Banking Sector Liquidity and Capital

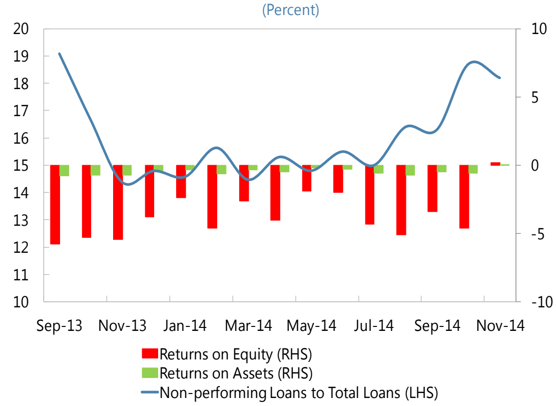
(Percent)



…but non-performing loans are picking up against a backdrop of weak profitability.

Asset Quality and Banks' Profitability

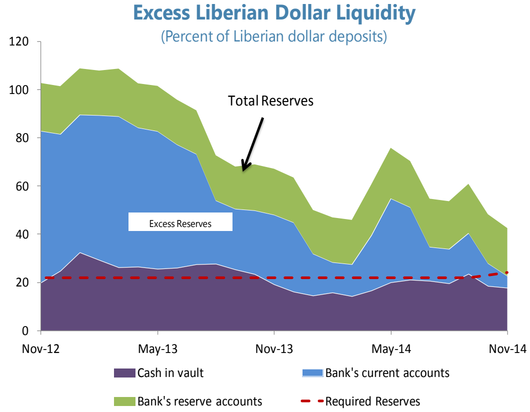
(Percent)



Liberian dollar liquidity has declined but remains well above required levels.

Excess Liberian Dollar Liquidity

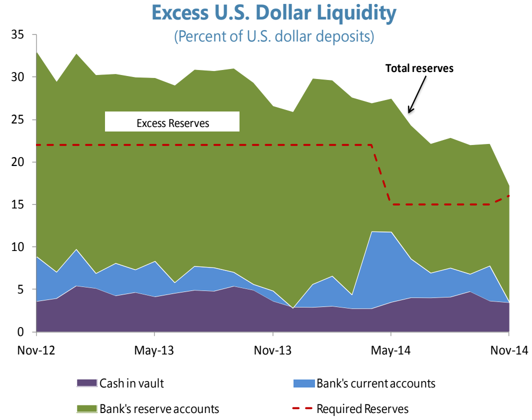
(Percent of Liberian dollar deposits)



U.S. dollar liquidity remains tight, in spite of the April 2014 adjustment in reserves requirements.

Excess U.S. Dollar Liquidity

(Percent of U.S. dollar deposits)



Sources: Liberian authorities and IMF staff estimations.

Table 1. Liberia: Selected Economic and Financial Indicators, 2013–16

	2013	2014		2015			2016	
	Est.	ECF Aug	Proj.	Third Review	ECF Aug	Proj.	Third Review	Proj.
	(Annual percentage change)							
National income								
Real GDP	8.7	2.5	0.5	6.8	4.5	-1.4	7.2	5.0
Agriculture & fisheries	-0.3	1.3	-2.9	5.3	3.9	-2.0	6.1	2.2
Forestry	0.5	2.0	-2.0	6.5	2.0	0.0	6.5	3.0
Mining & panning	49.6	-1.3	1.5	4.8	-3.1	-8.8	6.6	9.8
Manufacturing	9.2	5.0	-0.7	10.1	8.3	-1.1	10.1	4.3
Services	7.2	4.0	3.0	7.7	6.9	0.8	7.6	5.8
Real GDP excluding mining sector[1]	4.3	3.1	0.4	7.1	5.6	-0.2	7.2	4.3
Nominal non-mining per capita GDP (U.S. dollars)	403.6	442.2	437.7	504.8	489.0	444.6	532.5	471.3
Prices								
GDP deflator	3.4	3.5	2.9	4.2	1.8	2.8	3.7	3.1
Consumer prices (annual average)	7.6	11.4	9.9	7.7	9.7	7.9	7.2	7.8
Consumer prices (end of period)	8.5	13.1	7.7	7.5	8.1	8.0	6.9	7.5
Population (millions)	4.1	4.2	4.2	4.3	4.3	4.3	4.4	4.4
	(Percent share)							
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture & fisheries	26.2	26.3	25.9	24.4	27.0	25.6	22.7	25.0
Forestry	7.2	7.6	7.5	7.6	7.8	7.7	7.4	7.6
Mining & panning	16.9	11.5	10.5	8.9	5.6	7.9	11.5	7.7
Manufacturing	3.9	4.4	4.4	4.9	4.9	4.5	4.9	4.6
Services	45.9	50.2	51.7	54.2	54.7	54.3	53.4	55.1
	(Percent of GDP, fiscal year)							
Central government operations								
Total revenue and grants	29.9	27.4	27.3	24.9	24.0	29.4	25.6	24.5
Total revenue	27.5	23.4	23.6	22.3	21.2	20.9	22.8	21.9
Grants, including Ebola-related support	2.5	4.0	3.8	2.7	2.8	8.5	2.8	2.7
Total expenditure and net lending	31.5	31.2	28.5	32.0	35.7	36.5	30.9	34.0
Current expenditure	26.6	21.2	22.9	19.7	23.8	26.6	19.9	22.7
Capital expenditure	4.9	10.0	5.6	12.3	11.9	9.9	11.0	11.3
Overall fiscal balance, including grants	-1.6	-3.8	-1.2	-7.1	-11.8	-7.1	-5.4	-9.5
Overall fiscal balance, excluding grants	-4.0	-7.8	-4.9	-9.7	-14.5	-15.6	-8.2	-12.1
Public external debt	9.6	16.4	12.3	25.2	23.0	23.6	25.6	28.2
Central government domestic debt	16.7	15.2	15.5	13.9	14.5	13.9	12.0	12.7
	(Percent, unless otherwise indicated)							
M2/GDP	34.8	28.4	29.6	33.1	28.7	31.1	33.0	31.1
Private sector credit/GDP	18.3	18.7	18.6	20.6	19.1	17.1	21.7	18.0
Velocity (GDP-to-M2)	2.6	3.5	3.4	3.0	3.5	3.2	3.0	3.2
Money multiplier (M2/M0)	4.3	4.0	3.7	4.3	3.1	3.4	4.7	3.6
	(Percent of GDP, unless otherwise indicated)							
External sector								
Current account balance								
including grants	-28.2	-36.4	-31.9	-35.4	-40.5	-40.2	-21.5	-27.8
including grants, adj. for capital goods imports[2]	-28.2	-32.4	-27.9	-35.4	-40.5	-40.2	-21.5	-27.8
excluding grants	-77.5	-80.0	-78.0	-70.0	-77.5	-80.8	-51.2	-62.8
Trade balance	-23.5	-36.9	-32.8	-30.6	-38.5	-39.6	-21.3	-31.6
Exports	28.5	22.5	19.1	25.3	19.5	14.7	28.0	16.1
Imports	-52.0	-59.4	-51.9	-55.9	-57.9	-54.3	-49.3	-47.7
Grants (donor transfers, net)	49.2	43.6	46.2	34.6	37.0	40.7	29.7	35.0
Gross official reserves (millions of U.S. dollars)	393.1	402.0	362.8	429.9	466.3	301.3	454.8	315.4
Months of imports of goods and services[3, 4]	2.8	2.6	2.5	3.0	2.9	2.3	3.0	2.4

Sources: Liberian authorities and IMF staff estimates and projections.

[1] Chained-weighted sectoral average growth rate.

[2] In 2014, excludes about 14 percent of GDP in one-off imports for mining projects which will not materialize as projected, based on available information. These imports are financed by private flows which have been adjusted by the same amount. Comparison between the adjusted current account and the current projection more precisely reflects the emerging financing gap due to the Ebola outbreak.

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

[4] Absent additional financing, gross reserves would decline to 1.3 months of imports in 2015.

Table 2. Liberia: Balance of Payments, 2013–16
(Millions of U.S. dollars, unless otherwise indicated)

	2013	2014			2015		2016	
	Est.	Third Review	ECF Aug	Proj.	ECF Aug	Proj.	Third Review	Proj.
Trade balance	-461	-900	-764	-665	-848	-814	-560	-703
Exports, f.o.b.	559	560	467	387	430	302	737	359
Of which: Iron ore	314	325	233	208	167	123	373	130
Imports, f.o.b	-1,020	-1,460	-1,231	-1,052	-1,278	-1,116	-1,297	-1,062
Services (net)	-743	-707	-664	-687	-637	-633	-505	-486
Income (net)	-372	-345	-333	-334	-331	-323	-343	-322
Of which: public interest payments due	-2	-3	-3	-2	-5	-3	-6	-4
Current transfers	1,022	965	1,008	1,040	924	944	844	891
Current account balance	-554	-987	-754	-646	-892	-826	-564	-619
Current account balance, excluding grants	-1,520	-1,893	-1,658	-1,582	-1,708	-1,662	-1,344	-1,398
Capital and financial account (net)	543	977	620	488	887	484	586	641
Financial account	543	977	620	488	887	484	586	641
Foreign direct investment (net)	432	330	193	176	291	174	329	263
Portfolio investment (net)	0	0	0	0	0	0	0	0
Other investment (net)	111	647	426	312	596	310	257	379
Official financing: medium and long term (net)	26	106	119	96	142	71	155	141
Private financing (net)	84	541	307	216	454	239	118	237
Errors and omissions	0	0	0	0	0	0	0	0
Overall balance	-11	-10	-134	-158	-5	-342	22	22
Financing	11	10	90	87	5	89	-22	-22
Change in gross official reserves (increase -)[1]	-12	-21	22	30	-23	61	-25	-14
Net use of IMF credit and loans	23	31	68	56	28	28	3	-8
Exceptional financing	0	0	0	0	0	0	0	0
Financing gap (excluding Ebola-related financial supports; - deficit / + surplus)	0	0	-44	-71	0	-253	0	0
Ebola-related grants			19	71		45		0
Ebola-related loans				0		81		
Additional financing/adjustment measures required			25	0		127		0
Of which: Possible IMF-RCF						47		
Of which: Possible CCR trust, debt relief						5		8
Memorandum items:								
Current account balance (percent of GDP)								
Including grants	-28.2	-46.5	-36.4	-31.9	-40.5	-40.2	-21.5	-27.8
Including grants, adj. for capital goods imports[2]	-28.2	-32.4	-36.4	-31.9	-40.5	-40.2	-21.5	-27.8
Excluding grants	-77.5	-89.2	-80.0	-78.0	-77.5	-80.8	-51.2	-62.8
Trade balance (percent of GDP)	-23.5	-42.4	-36.9	-32.8	-38.5	-39.6	-21.3	-31.6
Donor transfers (net, percent of GDP)	49.2	42.7	43.6	46.2	37.0	40.7	29.7	35.0
Foreign direct investment (net, percent of GDP)	22.0	15.6	9.3	8.7	13.2	8.5	12.5	11.8
Public sector external debt (medium and long term, percent of GDP)[3]	9.6	16.7	16.4	12.3	23.0	23.6	25.6	28.2
Gross official reserves	393	414	402	363	466	301	482	315
Gross official reserves (months of imports)[4, 5]	2.8	2.8	2.6	2.5	2.9	2.3	3.0	2.4

Sources: Liberian authorities and IMF staff estimates and projections.

[1] Includes SDR holdings.

[2] In 2014, excludes about 14 percent of GDP in one-off imports for mining projects which will not materialize as projected, based on available information. These imports are financed by private flows which have been adjusted by the same amount. Comparison between the adjusted current account and the current projection more precisely reflects the emerging financing gap due to the Ebola outbreak.

[3] Recorded in fiscal years.

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

[5] Absent additional financing, gross reserves would decline to 1.3 months of imports in 2015.

Table 3a. Liberia: Fiscal Operations of the Central Government, FY2013–16[1]

(Millions of U.S. dollars)

	FY2013	FY2014		FY2015			FY2016	
	Prel.	ECF Aug	Prel.	Third Review	ECF Aug	Proj.	Third Review	Proj.
Total revenue and grants, excl. Ebola-related support	555	551	545	559	513	484	638	526
Revenue	509	470	470	499	454	427	568	469
Tax revenue	369	378	385	399	361	326	464	379
Non-tax	140	93	86	100	92	101	103	90
Grants, excluding Ebola-related support	46	80	75	60	60	57	70	57
Expenditure and net lending	584	628	568	718	765	746	771	728
Current expenditure	493	427	456	442	509	544	497	486
Wages and salaries	211	200	181	214	214	246	238	221
Goods and services	162	129	165	129	196	117	143	142
Subsides and transfers	114	90	105	89	89	171	99	112
Interest	6	8	6	10	10	9	16	10
Capital expenditure	91	201	112	276	256	202	275	243
Of which: Mount Coffee	0	55	63	55	55	70	58	58
Foreign loan financed	12	95	49	158	158	56	162	117
Domestic and grant financed	79	106	63	118	98	146	113	126
Overall balance, excl. Ebola-related support								
Including grants	-29	-77	-23	-159	-252	-262	-134	-202
Excluding grants	-75	-158	-98	-218	-311	-319	-204	-259
Identified financing, excluding Ebola-related	29	77	23	159	159	27	134	99
External financing (net)	7	91	44	151	151	53	145	110
Loans	12	95	49	158	158	60	162	117
Amortization (-)	-5	-4	-5	-7	-7	-7	-17	-7
Domestic financing (net)	22	-14	-21	8	8	-26	-11	-11
Central Bank of Liberia	6	-38	-47	0	0	-12	0	0
Use of deposits	19	-30	-42	0	0	12	0	0
Gross borrowing	21	0	4	0	0	-10	0	0
Amortization	-34	-8	-8	0	0	-15	0	0
Deposit money banks	14	21	18	10	10	0	-10	-10
Treasury bill purchases (net)	5	-1	6	0	0	0	0	0
Other lending to government (net)	9	22	12	10	10	0	-10	-10
Other (including repayment of arrears)	2	3	8	-3	-3	-14	-1	-1
Financing gap, excl Ebola-related support (- deficit / + surplus)	0	0	0	0	-93	-235	0	-134
Confirmed financing	0	0	0	0	67	235	0	30
External support	0	0	0	0	67	215	0	30
Of which: Grants	0	0	0	0	10	116	0	0
Of which: IMF-ECF augmentation	0	0	0	0	48	48	0	0
Domestic financing	0	0	0	0	0	20	0	0
Residual gap	0	0	0	0	25	0	0	104
Memorandum items:								
Iron-ore related revenue	38	38	31	44	28	23	58	19
Total public external debt [2]	178	331	246	491	493	483	638	604
Central government domestic debt [3]	309	307	310	311	310	283	299	271
Of which: foreign currency denominated	297	296	299	301	301	272	290	261
Basic balance [4]	62	124	89	117	4	-60	141	40
Current balance	16	44	14	57	-56	-117	71	-17
Primary balance, including grants	-23	-69	-17	-149	-242	-252	-118	-192
Fiscal year nominal GDP	1,854	2,014	1,995	2,242	2,139	2,042	2,494	2,142

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] Includes debt to IMF.

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

[4] 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, FY2013–16[1]

(Percent of GDP)

	FY2013	FY2014		FY2015			FY2016	
	Prel.	ECF Aug	Prel.	Third Review	ECF Aug	Proj.	Third Review	Proj.
Total revenue and grants, excl. Ebola-related support	29.9	27.4	27.3	24.9	24.0	23.7	25.6	24.5
Revenue	27.5	23.4	23.6	22.3	21.2	20.9	22.8	21.9
Tax revenue	19.9	18.8	19.3	17.8	16.9	16.0	18.6	17.7
Non-tax	7.5	4.6	4.3	4.5	4.3	4.9	4.1	4.2
Grants, excluding Ebola-related support	2.5	4.0	3.8	2.7	2.8	2.8	2.8	2.7
Expenditure and net lending	31.5	31.2	28.5	32.0	35.7	36.5	30.9	34.0
Current expenditure	26.6	21.2	22.9	19.7	23.8	26.6	19.9	22.7
Wages and salaries	11.4	9.9	9.1	9.6	10.0	12.0	9.6	10.3
Goods and services	8.7	6.4	8.3	5.7	9.2	5.7	5.7	6.6
Subsides and transfers	6.1	4.5	5.2	4.0	4.2	8.4	4.0	5.2
Interest	0.3	0.4	0.3	0.4	0.4	0.5	0.6	0.5
Capital expenditure	4.9	10.0	5.6	12.3	11.9	9.9	11.0	11.3
Of which: Mount Coffee	0.0	2.7	3.2	2.4	2.5	3.4	2.3	2.7
Foreign loans financed	0.7	4.7	2.5	7.0	7.4	2.7	6.5	5.5
Domestic and grant financed	4.3	5.3	3.2	5.2	4.6	7.2	4.5	5.9
Overall balance, excl. Ebola-related support								
Including grants	-1.6	-3.8	-1.2	-7.1	-11.8	-12.8	-5.4	-9.5
Excluding grants	-4.0	-7.8	-4.9	-9.7	-14.5	-15.6	-8.2	-12.1
Identified financing	1.6	3.8	1.2	7.1	7.4	1.3	5.4	4.6
External financing (net)	0.4	4.5	2.2	6.7	7.1	2.6	5.8	5.1
Loans	0.7	4.7	2.5	7.0	7.4	3.0	6.5	5.5
Amortization (-)	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.7	-0.3
Domestic financing (net)	1.2	-0.7	-1.0	0.3	0.4	-1.3	-0.5	-0.5
Central Bank of Liberia	0.3	-1.9	-2.3	0.0	0.0	-0.6	0.0	0.0
Use of deposits	1.0	-1.5	-2.1	0.0	0.0	0.6	0.0	0.0
Gross borrowing	1.1	0.0	0.2	0.0	0.0	-0.5	0.0	0.0
Amortization	-1.9	-0.4	-0.4	0.0	0.0	-0.7	0.0	0.0
Deposit money banks	0.7	1.0	0.9	0.4	0.5	0.0	-0.4	-0.5
Treasury bill purchases (net)	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Other lending to government (net)	0.5	1.1	0.6	0.4	0.5	0.0	-0.4	-0.5
Other (including repayment of arrears)	0.1	0.2	0.4	-0.1	-0.1	-0.7	0.0	-0.1
Financing gap, excl Ebola-related support (- deficit / + surplus)	0.0	0.0	0.0	0.0	-4.3	-11.5	0.0	-6.2
Confirmed financing (excluding IMF)	0.0	0.0	0.0	0.0	3.2	11.5	0.0	1.4
External support	0.0	0.0	0.0	0.0	3.2	10.5	0.0	1.4
Of which: Grants	0.0	0.0	0.0	0.0	0.5	5.7	0.0	0.0
Of which: IMF-ECF augmentation	0.0	0.0	0.0	0.0	2.3	2.3	0.0	0.0
Domestic financing	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0
Residual gap	0.0	0.0	0.0	0.0	1.2	0.0	0.0	4.8
Memorandum items:								
Iron-ore related revenue	2.1	1.9	1.5	2.0	1.3	1.1	2.3	0.9
Total public external debt [2]	9.6	16.4	12.3	21.9	23.0	23.6	25.6	28.2
Central government domestic debt [3]	16.7	15.2	15.5	13.9	14.5	13.9	12.0	12.7
Of which: foreign currency denominated	16.0	14.7	15.0	13.4	14.1	13.3	11.6	12.2
Basic balance [4]	3.3	6.2	4.5	5.2	0.2	-2.9	5.6	1.9
Current balance	0.9	2.2	0.7	2.6	-2.6	-5.7	2.8	-0.8
Primary balance, including grants	-1.2	-3.4	-0.8	-6.7	-11.3	-12.4	-4.7	-9.0
Fiscal year nominal GDP (millions of U.S. dollars)	1,854	2,014	1,995	2,242	2,139	2,042	2,494	2,142

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] Includes debt to IMF.

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

[4] 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.	ECF Aug	Proj.	Proj.	Proj.	Proj.
(Central Bank Survey)						
Net foreign assets	204.4	118.1	165.6	155.9	92.0	120.6
CBL's gross foreign reserves	505.8	490.8	458.9	478.3	398.7	420.9
Commercial banks' US$ denominated deposits	112.7	88.8	96.1	96.8	97.5	105.6
CBL's gross official foreign reserves	393.1	402.0	362.8	381.5	301.3	315.4
CBL's net foreign exchange position[1]	237.3	192.9	227.9	240.4	203.2	214.6
Net domestic assets	-47.0	28.4	-2.5	46.3	97.1	72.6
Net claims on government	210.9	265.9	236.9	290.0	338.5	326.4
Claims on other public sector	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	2.1	2.2	2.2	2.2	2.2	2.4
Claims on commercial banks	28.1	28.1	28.1	28.1	28.1	28.1
Other items (net)	-288.1	-267.9	-269.7	-274.1	-271.8	-284.3
Monetary base (M0)	157.4	146.5	163.1	202.2	189.0	193.2
Monetary base (billions of Liberian dollars)	13.0	13.8	13.5	16.4	16.3	17.2
(Depository Corporation Survey)						
Net foreign assets	343.8	194.9	268.9	208.2	175.0	204.6
Net domestic assets	338.5	394.0	331.5	411.3	463.5	487.1
Net claims on government	223.3	302.9	274.0	378.1	375.6	353.5
Claims on public enterprises	22.6	19.7	22.6	22.1	21.7	20.8
Claims on private sector	358.2	387.4	377.6	365.0	352.3	400.6
Claims on nonbank financial institutions	1.4	1.2	1.4	1.4	1.3	1.3
Other Items (Net)	-266.9	-317.3	-344.0	-355.2	-287.4	-289.1
Broad money (M2)	682.3	588.9	600.3	619.4	638.5	691.6
L$ component	190.1	158.5	180.9	197.1	213.3	231.0
L$ Currency in circulation	100.3	78.8	90.2	103.8	117.4	127.2
L$ denominated deposits	89.8	79.7	90.7	93.3	95.9	103.8
US$ component (deposits only)	492.2	430.4	419.5	422.4	425.3	460.6
Memorandum items:						
Broad money (annual change)	7.6	-13.7	-12.0	-5.7	6.4	8.3
L$ component as percent of broad money	2.5	-4.6	-1.4	2.6	5.4	2.8
US$ component as percent of broad money	5.1	-9.1	-10.7	-8.2	1.0	5.5
Monetary base (annual change)	-10.2	-6.9	3.6	54.0	15.9	2.2
Net credit to government (annual change)	4.3	35.6	22.7	50.2	37.1	-5.9
Credit to private sector (annual change)	28.7	21.5	3.4	-1.9	-6.7	13.7
Velocity (GDP-to-M2)	2.6	3.5	3.4	3.3	3.2	3.2
Money multiplier (M2/M0)	4.3	4.0	3.7	3.1	3.4	3.6

Sources: Liberian authorities and IMF staff estimates and projections.

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

Table 5. Liberia: Financial Soundness Indicators, 2012–September 2014
(Percent)

		2013				2014			
	Dec-12	March	June	Sept.	Dec.	March	June	Sept.	Nov.
Capital adequacy									
Regulatory capital to risk-weighted assets	22.7	21.9	25.0	23.7	24.9	20.5	21.4	23.6	22.2
Reported net capitalization	14.9	14.1	14.2	14.3	13.6	14.3	15.2	15.0	14.4
Asset quality									
Non-performing loans to total loans	24.9	20.3	18.8	19.1	14.8	14.5	15.5	16.3	18.2
Provisions to non-performing loans net of interest in suspense	49.0	67.1	55.3	48.5	54.2	73.3	57.4	64.4	60.4
Provisions to classified loans net of interest in suspense	44.0	59.9	46.5	43.4	45.5	52.5	38.9	44.3	48.6
Loan concentration (share of total)									
Agriculture	4.5	6.6	4.8	5.2	5.5	6.3	5.5	8.2	6.7
Mining and Quarrying	0.6	0.8	0.7	0.3	0.4	0.5	0.4	0.5	0.5
Manufacturing	1.5	2.2	1.6	1.5	1.4	1.9	1.9	2.4	2.0
Construction	6.9	9.6	9.6	10.9	10.8	15.6	15.3	17.1	16.9
Transportation, Storage, and Communication	7.1	8.9	5.9	9.1	8.4	8.5	8.2	8.3	7.9
Trade, Hotels, and Restaurants	44.0	40.0	42.8	38.3	40.0	45.2	42.7	41.6	43.7
Services	9.7	8.9	9.7	9.8	9.5	5.8	5.9	5.6	6.2
Personal	15.0	13.9	12.0	11.7	12.0	9.6	9.8	10.0	9.9
Government of Liberia	0.4	0.4	0.4	1.4	2.1	2.1	2.0	2.2	2.2
Public corporations	1.6	1.9	1.7	1.1	1.0	0.8	0.9	1.0	0.8
Others	8.6	6.8	10.6	10.8	9.0	3.7	7.2	3.3	3.2
Earnings and profitability									
Return on assets	-0.1	-0.7	-0.7	-0.8	-0.5	-0.4	-0.3	-0.5	0.0
Return on equity	-0.5	-4.8	-5.3	-5.8	-3.8	-2.6	-2.0	-3.4	0.2
Non-interest income to total income	55.3	54.0	57.9	56.0	55.5	48.9	51.5	51.2	50.0
Net interest margin over average assets	7.4	1.4	3.7	5.8	7.2	2.1	3.4	6.2	7.3
Liquidity									
Liquid assets to deposits and designated liabilities	45.9	44.8	40.2	32.1	36.1	25.4	41.6	45.9	47.7
Liquid assets to net assets	34.0	32.9	29.6	23.5	26.2	18.8	26.7	29.5	31.0
Net loans to deposits	43.0	41.3	46.8	51.4	51.8	51.7	58.4	56.5	54.9

Sources: Liberian authorities and IMF staff estimates.

Table 6. Liberia: External Financing Requirements and Sources, 2013–16

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

	2013	2014		2015		2016	
	Est.	ECF Aug	Proj.[1]	ECF Aug	Proj.	ECF Aug	Proj.
I. Total financing requirement	-1,536	-1,641	-1,552	-1,744	-1,601	-1,440	-1,410
Current account balance, excluding official grants	-1,520	-1,658	-1,582	-1,708	-1,662	-1,414	-1,398
Of which: exports of goods	559	467	387	430	302	618	359
Of which: imports of goods	-1,020	-1,231	-1,052	-1,278	-1,116	-1,292	-1,062
Official debt amortization	-4	-5	-1	-12	0	-10	2
Gross reserves accumulation (- increase)	-12	22	30	-23	61	-15	-14
II. Total available financing	1,536	1,597	1,481	1,744	1,348	1,440	1,410
Official grants	966	904	936	816	836	779	779
Official medium- and long-term flows	30	124	97	155	71	165	139
Foreign direct investment	432	193	176	291	174	323	263
Private financing (net)	84	307	216	454	239	170	237
Use of IMF credit and loans (net)	23	68	56	28	28	3	-8
III. Financing gap (= I. + II.)	0	-44	-71	0	-253	0	0
IV. Expected sources of financing		19	71	0	126	0	0
African Development Bank		9	5	0	61	0	0
European Union		0	25	0	40	0	0
World Bank		10	36	0	20	0	0
Others		0	6	0	5	0	0
V. Residual gap (= III. + IV.)		-25	0	0	-127	0	0
Of which: Possible IMF-RCF					47		
Of which: Possible CCR Trust, debt relief					5		8
VI. Memorandum items							
Gross official reserves (U.S. million)	393	402	363	466	301	482	315
Gross official reserves (months of imports)[2]	2.8	2.6	2.5	2.9	2.3	2.8	2.4

Sources: Liberian authorities and IMF staff estimates and projections.

[1] Assuming that all the financing gap is filled by the expected donor financing and possible ECF augmentation.

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

Table 7. Liberia: Quantitative Performance Criteria and Indicative Targets, 2013–14

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

	Dec. 13		Status	Mar. 14		June 14			Status	Sep. 14			Status	Dec. 14	
	Program	Actual		Program	Actual	Program	Adjusted[11]	Prel.		Program	Adjusted[12]	Prel.		Program	Adjusted[12]
Performance criteria[1, 2]															
Floor on total revenue collection of the central government[3]	230.3	214.5	Not met	347.8	335.6	492.1	492.1	470.5	Not met	125.0	125.0	112.3	Not met	245.0	245.0
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0
Ceiling on new non-concessional external debt of the public sector (continuous basis)[4]	14.2	0.0	Met	14.2	0.0	14.2	14.2	14.2	Met	14.2	14.2	14.2	Met	14.2	14.2
Ceiling on new domestic borrowing of the central government[5]	30.0	14.0	Met	35.0	13.0	35.0	35.0	13.0	Met	40.0	40.0	0.0	Met	45.0	45.0
Floor on CBL's net foreign exchange position[6, 7]	217.0	237.3	Met	221.0	230.2	245.0	219.8	236.0	Met	249.0	249.0	214.2	Not met	253.0	181.6
Ceiling on CBL's gross direct credit to central government[7]	284.9	264.4	Met	284.9	266.7	260.9	276.1	267.5	Met	260.4	260.4	259.4	Met	260.4	308.8
Indicative Targets															
Ceiling on gross external borrowing by the public sector[8]	118.2	144.5	Not met	118.2	144.5	265.0	265.0	178.5	Met	153.2	153.2	38.3	Met	153.2	153.2
Ceiling on net domestic assets of the CBL[6, 7]	3.0	-23.7	Met	3.0	-22.8	-25.0	0.2	4.5	Not met	-25.0	-25.0	-26.5	Met	-25.0	22.3
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0
Floor on social and other priority spending (percent of total actual expenditure, excluding contingencies)[9]	30.0	35.9	Met	30.0	27.3	30.0	30.0	30.5	Met	30.0	30.0	28.9	Not met	30.0	30.0
Memorandum items:															
Total spending on education, health, social development services (percent of total actual expenditure, excluding contingencies)	25.0	22.9	…	25.0	17.9	25.0	25.0	26.7	…	25.0	25.0	28.9	…	25.0	25.0
Programmed receipt of external budget support grants and committed external loans[2, 10]	53.3	31.1	…	55.9	31.1	61.6	61.6	36.4	…	2.5	2.5	12.6	…	18.0	18.0

Sources: Liberian authorities and IMF staff estimates and projections.

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

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

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

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

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

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

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

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

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

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

[11] The actual targets based on the automatic adjustors.

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

Table 8. Liberia: Structural Benchmarks for the Fourth Review, End-June 2014

Measure	Target Date[1]	Justification	Current Status-Risks
Enhancing budget programming, control and monitoring			
Complete clean-up of payrolls of 5 Ministries and Agencies (M&As) and upload the cleaned payrolls to IFMIS.	End-March 2014	Reduce payments to ghost workers and increase fiscal space for capital investment.	Met. Validation of the payroll and issuance of biometric cards completed for all ministries and agencies in March 2014 with the removal of about 4,000 ghost workers.
Launch pilot phase of the TSA with zero-balance accounts for seven largest ministries.	End-June 2014	Improve cash management with a view to eliminate idle accounts.	Not met. The Pilot phase which commenced September 2013 was conducted for two months and was brought to an abrupt halt due to the lack of technical infrastructure. We are currently working on the daily linking exercise which commenced January 2014.
Ministries and Agencies submit to the Department of Budget the cash and procurement plans for both recurrent and PSIP expenditure starting in FY2015.	End-June 2014	Improve execution of public investment.	Not met. FY 2015 budget is still being discussed under the Legislature. However, the National Budget was approved by National Legislature on November 27, 2014. In so doing, M&As are currently engaged in the process of submitting their cash and procurement plans.
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 8. Liberia: Structural Benchmarks for the Fourth Review, End-June 2014 (concluded)			
Measure	**Target Date[1]**	**Justification**	**Current Status-Risks**
Complete pilot phase for the migration of credit-financed projects to the Government's Integrated Financial System (IFMIS).	End-June 2014	Strengthen the tracking of off-budget government spending and comprehensiveness of the budget in line with the PFM Act.	Met. To date, the annual budgets for the 15 credit-financed has been mapped into the Government of Liberia chart of accounts. Arrangements with banking institutions for the supply of check stationery is ongoing – specifications were provided and check design is being worked on by their supplier. Customization of financial reports on version 7.0 of Free balance Application will be completed by December 2014 and go-live is scheduled for January 2015.
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 has been interrupted due to the Ebola outbreak. Data collected during the first 6 months of 2014 have been entered and is currently undergoing validation. Plans are underway to use the six months of data to produce the national accounts.
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, the revised Insurance Act was passed into law by the National Legislature in November of 2014.

[1]Target dates are indicative only.

Table 9. Liberia: Indicators of Capacity to Repay the Fund, 2014–25
(Millions of SDR, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Projections											
Prospective drawings based on existing credit[1]	39.7	22.2	-	-	-	-	-	-	-	-	-	-
Prospective drawings based on existing and prospective credit[2]	39.7	54.5	-	-	-	-	-	-	-	-	-	-
ECF	39.7	22.2	-	-	-	-	-	-	-	-	-	-
RCF	-	32.3	-	-	-	-	-	-	-	-	-	-
Total obligations based on existing and prospective credit[2,3]	2.1	3.7	5.5	7.7	11.1	10.77	18.6	19.7	17.4	15.4	12.4	3.0
Repayments and repurchases	2.1	3.7	5.5	7.7	11.1	10.5	18.3	19.5	17.2	15.3	12.4	3.0
ECF-current	2.1	3.7	5.5	7.7	11.1	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	0.0	1.5	4.4	4.4	4.4	4.4	3.0
RCF-projected	0.0	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	0.0	0.3	0.3	0.2	0.1	0.1	0.0	0.0
ECF-current	0.0	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	0.0	0.1	0.1	0.1	0.1	0.1	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	0.0
In percent of												
GDP	0.2	0.3	0.4	0.5	0.6	0.5	0.8	0.8	0.6	0.5	0.4	0.1
Gross official reserves	0.8	1.8	2.5	3.2	4.2	3.7	5.6	5.3	4.2	3.4	2.5	0.6
Exports of goods and services	0.4	0.9	1.2	1.6	2.2	1.9	3.0	2.3	1.7	1.3	1.0	0.2
Fiscal revenue (excluding grants)	0.7	1.3	1.6	2.0	2.6	2.3	3.6	3.7	3.0	2.5	1.9	0.4
Outstanding Fund credit[1]	101.9	152.6	147.2	139.5	128.4	117.9	96.4	70.5	46.8	25.0	6.2	0.0
In percent of												
GDP	7.3	10.7	9.6	8.2	6.7	5.5	4.1	2.8	1.7	0.8	0.2	0.0
Gross official reserves	40.9	73.1	67.7	57.9	48.1	40.7	29.2	19.0	11.4	5.5	1.3	0.0
Exports of goods and services	20.3	35.4	31.8	30.0	25.5	21.0	15.4	8.2	4.5	2.2	0.5	0.0
Fiscal revenue (excluding grants)	35.8	52.1	43.4	36.8	30.1	24.6	18.6	13.1	8.1	4.0	0.9	0.0
Quota	78.8	118.1	113.9	108.0	99.4	91.3	74.6	54.6	36.2	19.4	4.8	0.0

Sources: Liberia Finance Department and IMF staff estimates.

[1] Due to the Ebola outbreak, the fourth ECF review, originally scheduled in late 2014, is being delayed.

[2] 2014 includes the proposed ECF augmentation of SDR 32.3 million (25 percent of quota) under the current arrangement.

[3] PRGT interest waived through end-2016. The following rates are assumed beyond 2016: projected interest charges between 2017 and 2018 are based on 0/0/0.25/0.25 percent per annum for the ECF, RCF, SCF, and ESF, respectively, and beyond 2018 0.25/0.25/0.5/0.25 percent per annum.

Appendix I. Letter of Intent

February 5, 2015

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

Dear Madame Lagarde:

This letter requests additional financial support from the IMF in an amount of SDR 32.3 million (25 percent of quota) under the Rapid Credit Facility (RCF) to help the Government of Liberia mitigate the continued adverse impact of the Ebola epidemic on Liberia's external position and to support our efforts in containing the outbreak. We also request that the full amount of the RCF disbursement be made available immediately upon approval of this request by the IMF's Executive Board.

The Government of Liberia is also requesting debt relief under the CCR Trust in an amount of SDR 25.84 million (20 percent of quota). As a PRGT-eligible country with income below the IDA eligibility cutoff, Liberia is eligible for access to the resources of the CCR Trust. The epidemic, which was declared a Public Health Emergency of International Concern (PHEIC), has severely affected the Liberian economy as well as neighboring economies, causing large balance of payments and fiscal needs and resulting in an estimated cumulative decline in real GDP of about 18 percent in 2014–15, and a cumulative loss of revenue and increase in expenditure of 19 percent of GDP, over the course of FY2014/2015. Substantial financing gaps persist for 2015 and beyond that could be reduced by debt relief on our obligations to the Fund. In addition, debt relief will help us maintain sufficient reserves to meet market demand for foreign exchange, and to mitigate the adverse balance-of-payments' impact of external shocks, including the recent decline in iron ore and rubber prices. We also hope that debt relief from the Fund could form the basis for additional grant-based financial support and debt relief from other official and private creditors.

The Ebola outbreak has cut deep through the social and economic fabric of our country, bringing economic activity to a standstill and derailing our medium-term development program—the Agenda for Transformation (AfT). The fear of contagion has helped fuel an economic crisis through reduced labor force participation, closure of places of employment and disruptions to transportation. Government revenue has been put under stress and the implementation of public investment projects has been delayed. In the private sector, major investments especially in the mining and services sectors have been scaled down as was anticipated due to the epidemic, while agriculture production and distribution in rural areas have been severely disrupted. The current account deficit continued to be high due to lower exports proceeds than projected. The volume of some key commodity exports (rubber and iron ore) has dropped sharply due to both lower domestic production and a decline in global commodity prices. Net foreign reserves have declined from US$235.8 million in June to US$227.9 million by end-December 2014. Overall, economic activity is projected to barely grow in 2014 and inflation is expected to increase, although the impact of higher food prices in the wake of the crisis is being partially mitigated by the recent decline in international oil prices. For 2015, growth would weaken further mainly due to lower investment in mining and infrastructure and the lingering impact of the epidemic on all sectors through at least the third quarter.

The containment measures we put into place, together with the massive international response, appear to be bearing fruits. Over the past few weeks, safer burial practices, a vigorous campaign to educate the public on disease prevention, and the expansion of Ebola Viral Disease (EVD) treatment capacity have translated into a slower rate of new infections in the country. As a sign of progress, EVD case incidence has declined to 8 confirmed cases per week as of January 18, 2015. As a result, the Government has ended the state of emergency imposed in August. The resulting reopening of border trading markets should help alleviate food shortages. Schools are set to reopen on February 2nd, 2015.

Maintaining satisfactory performance under the ECF program through end-September 2014 has been difficult. Our focus on fighting the crisis has led to delays in program implementation, and a number of end-September indicative targets were not observed as a result of the Ebola outbreak. In particular, the floor on Government revenues and the floor on CBL's net foreign exchange position were missed by US$13 million and US$34.8 million respectively, because of increased intervention and support to the Government's Ebola war chest. We, however, continue to meet the continuous PCs on non-accumulation of new external arrears and non-contracting of new non-concessional external debt.

We were able to implement a number of reforms in this challenging environment although the limited functioning of the public sector due to the epidemic hindered our progress. We merged the Ministry of Planning and Economic Affairs with the Ministry of Finance to become the Ministry of Finance and Development Planning (MFDP) on July 1, 2014. The merger now brings both the national planning and finance functions under a single institution. The Government also established the autonomous Liberia Revenue Authority, which became operational on July 1, 2014. Revenue collection performance has so far been good and most of the decline in revenue is attributed to the weaker economic activity, while the tax collection effort has remained strong. In addition, the Government installed the Civil Service Management module of the IFMIS, and IFMIS was rolled out to 15 additional Ministries and Agencies (for a total of 23) and 5 donor-financed projects were brought onto IFMIS (structural benchmark for the 5th ECF review).The Legislature also recently passed the new Insurance Act, which provides progressive use of enforcement measures to strengthen the oversight of the growing insurance sector (structural benchmark for the fourth ECF review).

We remain committed to the objectives of the ECF program. However, the Ebola outbreak has weakened our program implementation capacity, resulting in delays in ECF program discussions. Given urgent budgetary and balance of payments needs caused by the Ebola outbreak, the Government of Liberia is requesting a disbursement under the Rapid Credit Facility (RCF) equivalent to 25 percent of quota. We also expect the RCF to play a catalytic role and foster the continuation of much-needed donor support to the Government. Given the highly dollarized financial system, the RCF disbursement and debt relief under the CCR would also help provide the much needed confidence in the banking system by strengthening the Central Bank's ability to respond to potential liquidity problems.

We will continue to implement an accommodative fiscal policy to allow the fiscal deficit to widen taking into consideration available financing but we intend to be cautious so as to avoid a rapid increase in our debt burden. While revenue performance has deteriorated due to the outbreak, we do not foresee any changes in tax policy. However, the Government intends to mitigate the decline in revenue collection by strengthening tax administration and compliance to the extent possible. On the spending side, we will continue to reallocate non-priority recurrent expenditures to help meet the additional spending needs arising from the epidemic while ensuring that our PSIP projects implementation is uninterrupted.

The Legislature has recently approved a revised FY2014/2015 budget that incorporates revenue losses and expenditure needs relating to the Ebola outbreak. The revised budget includes allocations for both direct Ebola-related expenditure and indirect support to vulnerable groups. The increase in current spending would be achieved by reducing non-priority spending by means of fiscal measures which place a moratorium on all non-essential foreign and domestic travels as well as the all non-essential purchases including vehicles, furniture, fixtures and office supplies. Moreover, we seek to narrow our funding gap by seeking additional donor support.

Despite the increased support from the Development Partners in recent weeks, significant additional financing needs are emerging for FY2015/2016. The Government has commenced preparing the FY2015/2016 budget early in order to identify and quantify remaining financing needs. In addition, we will include all additional Ebola-related interventions in the envelope of the FY2015/2016 budget, and continue to use the Agenda for Transformation as a guide for the Country's public investment program.

Looking beyond the Ebola outbreak, the Government of Liberia is seeking funding for its Post-Ebola Economic Stabilization and Recovery Plan (ESRP).The ESRP includes substantial amount of development projects covering health, education, social safety nets, agricultural support and private sector development. The ESRP abstracts from the AfT and serves as the stepping stone for the achievement of the objectives of the AfT and Vision 2030. In addition to the short-term Ebola related interventions, the ESRP also contains a number of projects under the AfT.

The Government of Liberia remains committed to transparency and accountability in the management of funds directed to fight the outbreak and budget support. To this end, we have published the financial report of the Ebola Trust Fund while at the same time the Government through the MFDP has commenced the process for the selection and appointment of an independent agent to assist with the financial management of the Ebola Trust Fund. We will regularly update information on financing of Ebola-related activities, and we will also clearly identify Ebola-related outlays and priorities in our revised budget. Our FY2014/2015 budget will be fully financed, if committed donor support is fully disbursed. However, should we receive additional budget support from donors these funds will be incorporated in the budget to fund priority Ebola-related expenditures as highlighted in our Economic Stabilization and Recovery Plan (most of which remains unfunded), if needed through supplementary budgets.

The Government will continue to strengthen the budget process and to improve public financial management. The ongoing audit of the off-budget road contracts at the Ministry of Public Works (MPW) is well-advanced and is expected to be finalized soon. The General Auditing Commission (GAC) is also working on the second audit on the review of contractual and procurement practices in key ministries (including the Ministries of Education, Health, Agriculture, Commerce, and Land, Mines & Energy). Both audits have been somewhat delayed by other urgent requests in the wake of the Ebola epidemic. In the meantime, to maintain financial stability during the crisis and in particular to ensure adequate liquidity in the banking system, we had to take emergency measures, which included settling some payments owed to road contractors. These payments amounted to US$27 million, out of a US$34 million total budget allocation, and were made to contractors who had performed works and/or services on fully executed projects for which valid contracts had been signed. Payment to each contractor was also contingent upon adherence to the Public Procurement and Concessions Law and the Public Financial Management Law. The list of contractors paid by Government was thoroughly vetted by the MPW and the Liberia Bankers Association, and then transmitted to the GAC for verification, prior to payment. Further spending appropriations for road contractors will be approved based upon recommendations from the GAC completed audit.

Monetary policy in the context of the ongoing crisis has been directed towards containing inflation through a more stable exchange rate. The intense exchange rate pressures experienced at the onset of the crisis forced the Central Bank to increase its weekly intervention by an additional US$11.0 million in July – September of 2014 with about one-half via direct mopping. While this policy has helped stabilize the exchange rate, it has resulted in lower international reserves. To preserve our ability to act as a lender of last resort in our dollarized banking system and aided by reduced exchange rate pressures, we will continue to align our intervention policy with prevailing market conditions. At the same time, we will also continue to issue CBL notes to mop up excess Liberian dollar liquidity to maintain exchange rate stability and limit the pass-through to domestic prices. In addition, as extraordinary measures are no longer warranted, the CBL has returned to dealing with all counterparties in the foreign exchange market exclusively through the commercial banks.

The weak economic activity resulting from the Ebola outbreak has affected the performance of the banking system. Bank deposits are at their lowest levels in recent times and there is virtually no lending activity in the banking sector. Banks have been faced with loan rescheduling requests that could impact the quality of their loan portfolios. Even though system-wide measures of liquidity appear adequate, they mask serious differences across individual banks. The CBL is therefore developing a framework for the provision of emergency liquidity assistance to illiquid but solvent banks, with safeguards in place to ensure that this liquidity is used solely to meet deposit withdrawals. We have since requested technical assistance from the Fund on crisis preparedness and contingency planning. In the meantime, we will continue to conduct high frequency bank-by-bank monitoring of bank liquidity on a weekly basis to unearth any lingering liquidity problems and preserve confidence in our financial system. Additionally, the CBL will continue to take policy measures aimed at mitigating the impact of the Ebola crisis on the financial system, bearing in mind the important role of the banking system in stimulating economic activities.

The disbursement under the RCF will contribute toward the filling of the external financing gap and support timely execution of our budget. RCF resources will be fully on-lent to the Government, to help mitigate revenue shortfalls and accommodate additional spending needs caused by the Ebola outbreak in 2015. In particular, RCF resources will help us address the significant risks attached to the FY2014/2015 budget, in terms of (i) unexpected shortfalls in domestic revenue due to the shocks experienced by the Liberian economy or in budget support disbursements, and (ii) additional budgetary costs associated with the Ebola epidemic and its aftermath, on the basis of a supplementary budget discussed with Fund staff, or as part of the FY2015/2016 budget.

The Government believes that the economic and financial policies set forth in this LOI provide an adequate basis for achieving our macroeconomic and poverty reduction and growth objectives and address the balance of payments and fiscal difficulties caused by the Ebola outbreak, and we will refrain from introducing measures or policies that would compound these difficulties. If necessary, the Government stands ready to take any additional measures that may be required. Consistent with the Fund policy, we remain committed to the completion of the update of the safeguards assessment of the CBL. The Government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in this LOI, in accordance with the Fund's policies on such consultation.

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

Sincerely yours,

_____________/s/_____________	_____________/s/_____________
Hon. Amara M. Konneh	Dr. J. Mills Jones
Minister of Finance and Development Planning	Executive Governor
Ministry of Finance and Development Planning	Central Bank of Liberia

Appendix II. Debt Sustainability Analysis

An analysis of the impact of the Ebola outbreak on debt sustainability indicates that the risk of debt distress remains low. The external and public debt profiles are somewhat less favorable than in the July 2014 DSA update, mostly owing to lower growth in 2014–15. In particular, the average external debt to GDP ratio in 2015–34 is projected to be 29.9 percent, only marginally higher (by 0.5 percent) than at the time of the July 2014 update. However, a number of factors mitigate the impact of the crisis on the external and public debt paths (Appendix Tables 1 and 2).

- First, the economy is assumed to recover starting in 2016 as the shock is of a temporary nature (albeit protracted). Average annual real GDP growth in 2014–16 has been revised downward, from 7 to 2 percent. Nonetheless, medium-term growth is also affected by delays in infrastructure and mining projects.
- Second, external loan disbursements in FY2014 (pre-Ebola crisis) have been slow compared with staff's previous projections. Total external loan disbursements between 2014 and 2033 are now projected to be about US$0.5 billion below the amount projected at the time of the last DSA update.
- Third, the projected large financing gaps related to the Ebola epidemic are assumed to be filled mostly with grants and highly concessional loans, and some planned project loan disbursements have been delayed.

Stress tests also indicate that external and public debt would remain sustainable over the projection period. Owing to the relatively low level of debt outstanding at present, and the highly concessional terms of the new borrowing, the external and public debt profiles would remain sustainable (Appendix Figures 1 and 2).

Appendix Table 1. Liberia: External Debt Sustainability Framework, Baseline Scenario, 2011–34[1]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical 7/	Standard 7/	Projections									
				Average	Deviation							2014-19			2020-34
	2011	2012	2013			2014	2015	2016	2017	2018	2019	Average	2024	2034	Average
External debt (nominal) 1/	**10.4**	**9.4**	**9.9**			**12.7**	**23.9**	**28.7**	**32.6**	**34.0**	**34.5**		**32.2**	**27.1**	
of which: public and publicly guaranteed (PPG)	10.4	9.4	9.9			12.7	23.9	28.7	32.6	34.0	34.5		32.2	27.1	
Change in external debt	2.5	-1.0	0.5			2.8	11.2	4.8	3.8	1.4	0.4		-0.9	0.0	
Identified net debt-creating flows	1.7	0.0	0.9			6.9	16.4	11.5	2.5	0.6	-0.4		-1.2	1.0	
Non-interest current account deficit	**29.5**	**24.2**	**24.9**	**20.6**	**11.8**	**30.0**	**35.9**	**33.6**	**27.6**	**29.8**	**32.5**		**13.3**	**10.6**	14.7
Deficit in balance of goods and services	88.8	77.3	65.3			64.1	68.5	61.5	49.9	45.5	44.0		19.6	16.9	
Exports	44.4	48.3	48.4			41.4	33.1	30.2	29.0	27.5	27.0		36.1	28.1	
Imports	133.2	125.6	113.7			105.5	101.7	91.7	78.9	73.0	71.0		55.7	44.9	
Net current transfers (negative = inflow)	-73.0	-66.5	-57.4	-102.1	36.2	-51.7	-48.6	-42.9	-37.2	-31.9	-27.2		-16.3	-10.8	-15.0
of which: official	-28.4	-26.7	-25.0			-25.4	-26.3	-24.9	-22.7	-20.8	-18.8		-13.1	-8.7	
Other current account flows (negative = net inflow)	13.6	13.4	17.0			17.6	16.0	14.9	14.8	16.2	15.7		10.0	4.6	
Net FDI (negative = inflow) 2/	**-26.7**	**-22.8**	**-23.1**	**-11.9**	**17.4**	**-22.8**	**-19.7**	**-21.8**	**-23.5**	**-26.9**	**-30.3**		**-13.0**	**-9.9**	-14.1
Endogenous debt dynamics 3/	**-1.1**	**-1.4**	**-0.9**			**-0.3**	**0.2**	**-0.2**	**-1.5**	**-2.2**	**-2.5**		**-1.5**	**0.3**	
Contribution from nominal interest rate	0.0	0.0	0.1			0.1	0.1	0.2	0.2	0.3	0.3		0.3	0.3	
Contribution from real GDP growth	-0.5	-0.7	-0.7			-0.4	0.1	-0.4	-1.7	-2.5	-2.8		-1.9	0.0	
Contribution from price and exchange rate changes	-0.7	-0.7	-0.4			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**0.8**	**-1.0**	**-0.4**			**-4.1**	**-5.2**	**-6.7**	**1.3**	**0.8**	**0.8**		**0.3**	**-1.0**	
of which: exceptional financing	0.0	0.0	0.0			0.0	-0.1	-0.3	-0.4	-0.2	0.0		0.0	0.0	
PV of external debt 5/	...	...	5.9			7.4	13.9	16.4	18.7	20.3	20.9		19.0	16.2	
In percent of exports	...	...	12.1			17.9	42.0	54.2	64.3	73.6	77.4		52.7	57.7	
PV of PPG external debt	**...**	**...**	**5.9**			**7.4**	**13.9**	**16.4**	**18.7**	**20.3**	**20.9**		**19.0**	**16.2**	
In percent of exports	**...**	**...**	**12.1**			**17.9**	**42.0**	**54.2**	**64.3**	**73.6**	**77.4**		**52.7**	**57.7**	
In percent of government revenues	**...**	**...**	**21.4**			**31.4**	**66.5**	**74.9**	**83.5**	**91.1**	**93.1**		**88.2**	**64.3**	
Debt service-to-exports ratio (in percent)	**0.7**	**0.1**	**0.8**			**0.6**	**1.0**	**1.6**	**1.3**	**1.5**	**3.4**		**3.6**	**3.9**	
PPG debt service-to-exports ratio (in percent)	**0.7**	**0.1**	**0.8**			**0.6**	**1.0**	**1.6**	**1.3**	**1.5**	**3.4**		**3.6**	**3.9**	
PPG debt service-to-revenue ratio (in percent)	**1.3**	**0.2**	**1.4**			**1.0**	**1.6**	**2.3**	**1.7**	**1.8**	**4.1**		**6.0**	**4.4**	
Total gross financing need (Millions of U.S. dollars)	43.9	24.2	41.4			148.9	337.7	262.4	103.7	85.8	91.8		79.8	185.5	
Non-interest current account deficit that stabilizes debt ratio	27.0	25.3	24.4			27.2	24.8	28.7	23.7	28.3	32.1		14.2	10.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.8	7.9	8.5	7.3	1.9	4.4	-0.4	1.8	6.4	8.5	9.4	5.0	6.1	-0.1	4.9
GDP deflator in US dollar terms (change in percent)	9.0	7.6	4.0	6.7	2.4	3.1	2.8	3.0	3.2	3.2	3.2	3.1	3.2	5.2	3.4
Effective interest rate (percent) 6/	0.4	0.1	1.6	0.5	0.7	0.8	0.9	0.7	0.8	0.9	1.0	0.8	1.1	1.1	1.1
Growth of exports of G&S (US dollar terms, in percent)	25.5	26.1	13.1	17.4	16.5	-7.9	-18.2	-4.4	5.6	6.1	10.9	-1.3	8.9	5.6	8.9
Growth of imports of G&S (US dollar terms, in percent)	14.6	9.3	2.2	16.4	25.3	-0.2	-1.3	-5.4	-5.5	3.6	9.8	0.2	6.2	5.0	5.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	47.9	43.1	53.2	48.4	38.1	39.2	45.0	48.1	48.1	48.1
Government revenues (excluding grants, in percent of GDP)	23.6	26.2	27.5			23.6	20.9	21.9	22.4	22.2	22.4		21.6	25.2	23.5
Aid flows (in Millions of US dollars) 8/	40.3	28.3	45.7			74.8	173.3	56.8	47.1	52.7	59.5		98.0	200.1	
of which: Grants	40.3	28.3	45.7			74.8	173.3	56.8	47.1	52.7	59.5		98.0	200.1	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 9/	...	...	...			5.5	13.6	5.8	5.1	3.9	4.0		3.4	3.0	3.3
Grant-equivalent financing (in percent of external financing) 9/	...	...	...			74.5	66.9	67.6	60.8	55.8	56.6		69.3	73.1	70.5
Memorandum items:															
Nominal GDP (Millions of US dollars)	1416	1643	1854			1995	2042	2142	2353	2634	2975		4899	10006	
Nominal dollar GDP growth	16.4	16.0	12.8			7.6	2.4	4.9	9.9	12.0	13.0	8.3	9.5	5.1	8.4
PV of PPG external debt (in Millions of US dollars)			105.3			143.4	281.1	344.6	430.0	522.3	611.2		917.3	1596.8	
(PVt-PVt-1)/GDPt-1 (in percent)						2.1	6.9	3.1	4.0	3.9	3.4	3.9	1.2	0.8	1.2
Gross workers' remittances (Millions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	5.9			7.4	13.9	16.4	18.7	20.3	20.9		19.0	16.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	12.1			17.9	42.0	54.2	64.3	73.6	77.4		52.7	57.7	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.8			0.6	1.0	1.6	1.3	1.5	3.4		3.6	3.9	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

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

Appendix Table 2. Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011–34

(Percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	12.3	11.0	11.4			15.3	25.1	29.3	33.0	34.8	35.3		33.0	27.9	
of which: foreign-currency denominated	12.3	11.0	11.4			15.3	25.1	29.3	32.6	34.1	34.5		32.2	27.1	
Change in public sector debt	2.0	-1.3	0.4			3.9	9.8	4.3	3.7	1.8	0.4		-0.9	0.0	
Identified debt-creating flows	-113.2	1.5	0.6			0.3	4.1	8.5	3.5	1.2	0.4		-1.4	-1.1	
Primary deficit	0.5	3.2	1.4	-0.4	2.0	1.0	4.6	9.2	5.8	4.4	4.1	4.9	1.2	-0.1	0.6
Revenue and grants	26.5	27.9	29.9			27.3	29.4	24.5	24.4	24.2	24.4		23.6	27.2	
of which: grants	2.8	1.7	2.5			3.8	8.5	2.7	2.0	2.0	2.0		2.0	2.0	
Primary (noninterest) expenditure	27.0	31.2	31.4			28.3	34.0	33.8	30.2	28.7	28.6		24.7	27.1	
Automatic debt dynamics	-1.6	-1.7	-0.8			-0.7	-0.4	-0.7	-2.3	-3.3	-3.8		-2.6	-1.0	
Contribution from interest rate/growth differential	-0.8	-1.1	-0.9			-0.5	0.0	-0.6	-2.1	-3.0	-3.4		-2.2	-0.2	
of which: contribution from average real interest rate	-0.1	-0.2	0.0			0.0	0.0	-0.2	-0.3	-0.4	-0.4		-0.3	-0.3	
of which: contribution from real GDP growth	-0.7	-0.9	-0.9			-0.5	0.1	-0.4	-1.8	-2.6	-3.0		-2.0	0.0	
Contribution from real exchange rate depreciation	-0.8	-0.6	0.1			-0.2	-0.5	-0.1	-0.2	-0.3	-0.4		...	...	
Other identified debt-creating flows	-112.2	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-112.2	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	115.2	-2.9	-0.2			3.5	5.7	-4.2	0.2	0.6	0.1		0.5	1.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	7.4			10.0	15.1	17.0	19.1	21.1	21.7		19.8	17.0	
of which: foreign-currency denominated	...	...	7.4			10.0	15.1	17.0	18.7	20.3	21.0		19.0	16.2	
of which: external	...	...	5.9			7.4	13.9	16.4	18.7	20.3	20.9		19.0	16.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	0.9	3.4	2.3			1.3	5.3	10.3	6.8	4.9	5.4		2.8	1.4	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	24.6			36.4	51.4	69.3	78.5	87.0	88.8		84.1	62.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	26.8			42.2	72.2	77.6	85.5	94.8	96.7		91.9	67.5	
of which: external 3/	...	...	21.4			31.4	66.5	74.9	83.5	91.1	93.1		88.2	64.3	
Debt service-to-revenue and grants ratio (in percent) 4/	1.6	0.4	3.0			1.3	2.4	4.5	3.8	1.9	5.4		7.1	5.6	
Debt service-to-revenue ratio (in percent) 4/	1.8	0.5	3.2			1.4	3.3	5.0	4.1	2.1	5.8		7.7	6.0	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.5	4.6	1.0			-2.9	-5.2	4.9	2.2	2.7	3.7		2.1	-0.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.8	7.9	8.5	7.3	1.9	4.4	-0.4	1.8	6.4	8.5	9.4	5.0	6.1	-0.1	4.9
Average nominal interest rate on forex debt (in percent)	0.5	0.2	1.4	0.5	0.5	1.4	1.4	1.0	0.9	0.9	1.0	1.1	1.1	1.1	1.1
Average real interest rate on domestic debt (in percent)	-8.2	-5.7	-6.6	-5.9	4.4	...	...	...	...	6.4	2.1	4.2	1.0	-1.0	1.1
Real exchange rate depreciation (in percent, + indicates depreciation	-8.2	-5.6	0.6	-3.9	4.2	-1.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	12.2	8.7	8.0	9.6	3.7	10.0	7.2	6.1	7.5	7.8	7.4	7.7	6.4	8.4	6.5
Growth of real primary spending (deflated by GDP deflator, in percer	24.4	24.5	9.1	6.6	10.5	-5.6	19.3	1.2	-4.7	2.8	9.1	3.7	2.9	4.1	4.6
Grant element of new external borrowing (in percent)	...	...	...	...	...	47.9	43.1	53.2	48.4	38.1	39.2	45.0	48.1	48.1	...

Sources: Country authorities; and staff estimates and projections.

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

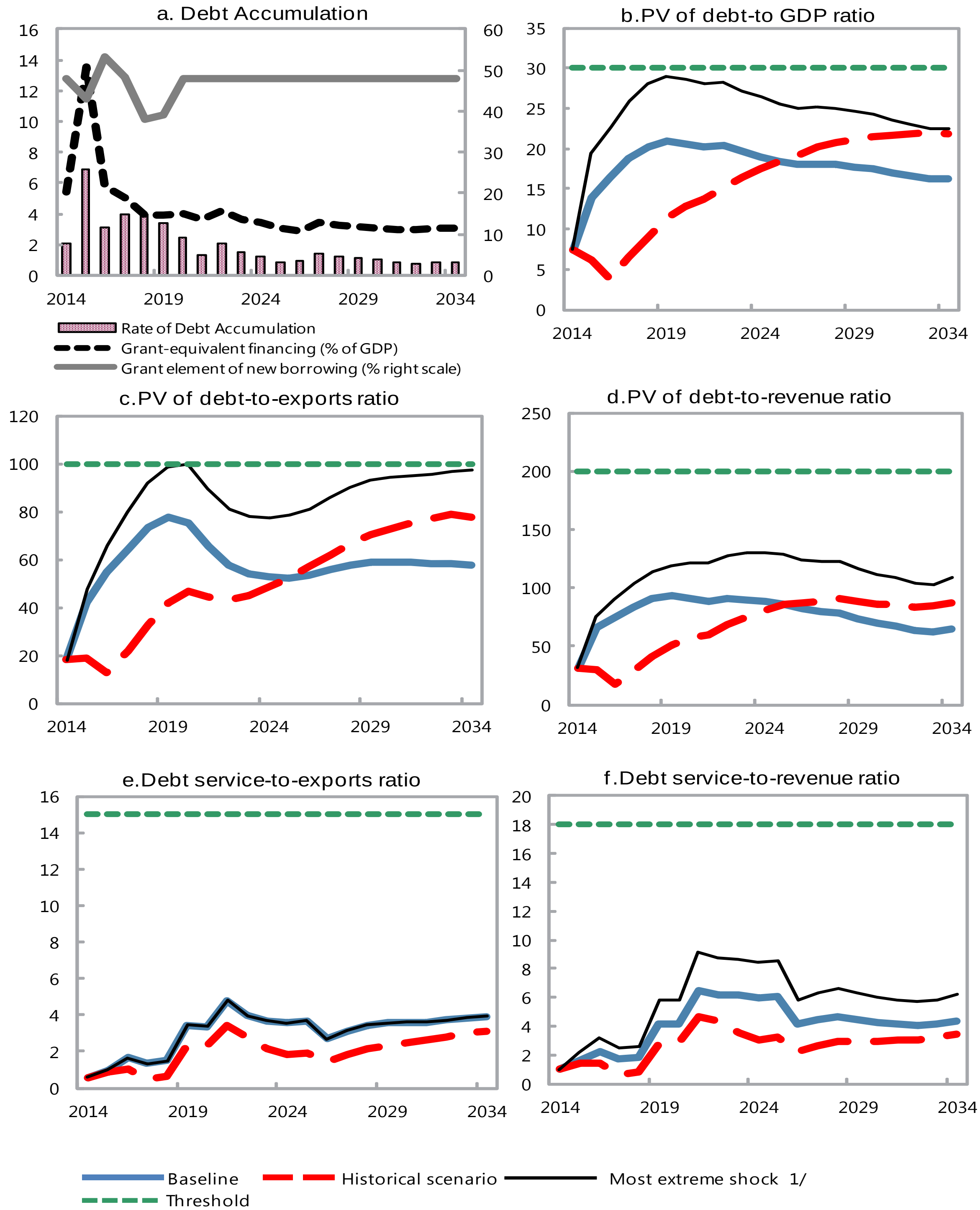
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

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

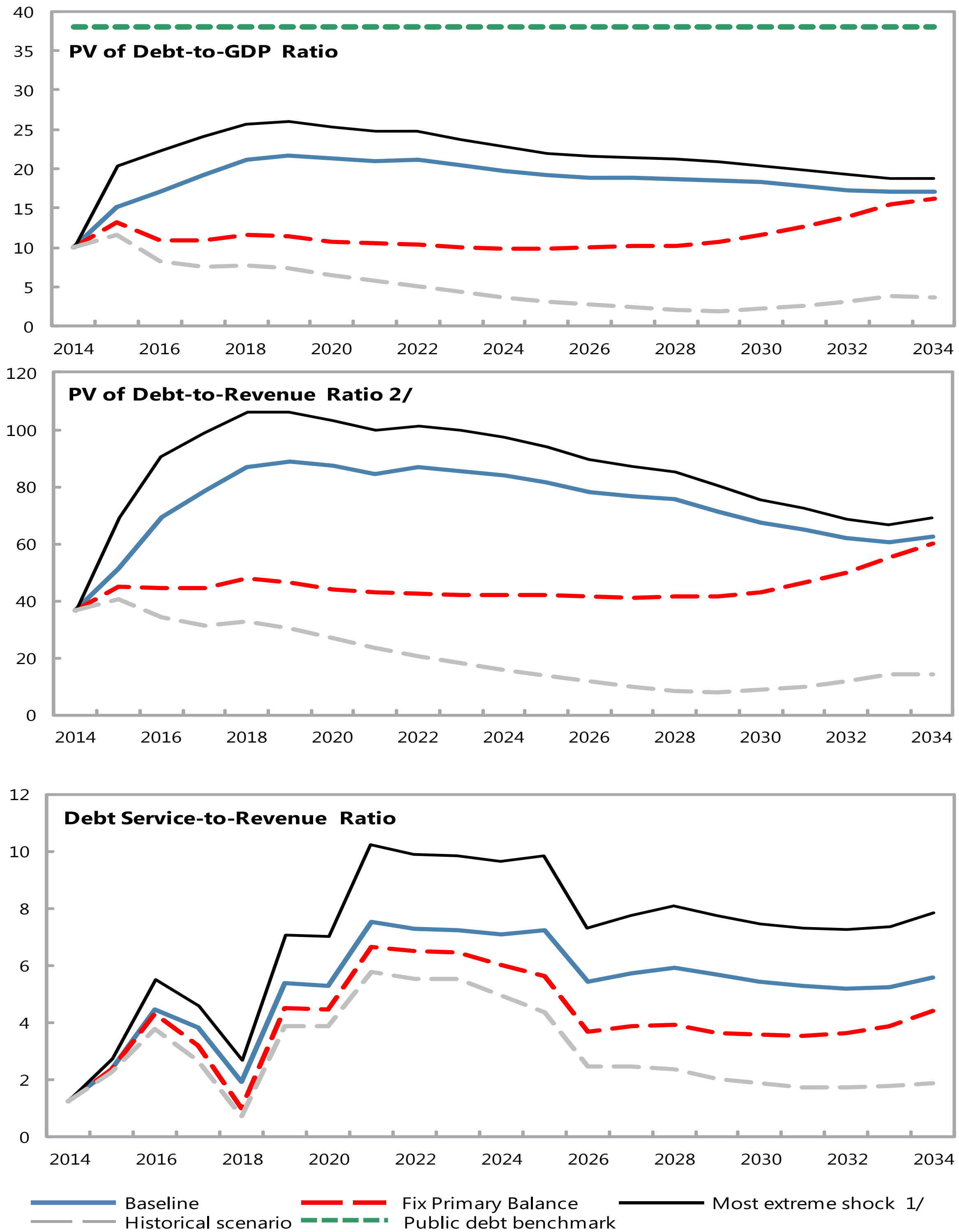
Appendix Figure 1. Liberia: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2014–34 [1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a 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. 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.

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



Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

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February 23, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$ 45.6 Million Disbursement under the Rapid Credit Facility and US$ 36.5 Million in Debt Relief Under the Catastrophe Containment and Relief Trust for Liberia

The Executive Board of the International Monetary Fund (IMF) today approved a disbursement of an amount equivalent to SDR 32.3 million (about US$45.6 million or 25 percent of quota) to be drawn from the Rapid Credit Facility (RCF)[1] as well as SDR 25.84 million (about US36.5 million or 20 percent of the country's quota) in immediate debt relief under the Catastrophe Containment and Relief (CCR) Trust[2].

The RCF funds will support the authorities fight against the Ebola outbreak by covering urgent budgetary and balance of payments needs and strengthening international reserves. This additional IMF financing also ought to help catalyse further assistance from the international community, preferably grants. The CCR funds will be applied to immediately repay outstanding debt up to the equivalent of 20 percent of Liberia's quota (SDR 25.84 million).

At the conclusion of the Executive Board's discussion, Mr. Shinohara, Chair and Deputy Managing Director issued the following statement:

"The Ebola outbreak continues to cripple the Liberian economy, although the recent decline in new cases is welcome. Economic activity has decelerated significantly, and fiscal and external financing needs are more pronounced than envisaged at the time of the Extended Credit Facility (ECF) augmentation. The economy is projected to stagnate in 2014 and contract in 2015, due to the ongoing impact of the epidemic and lower investment in mining

[1] 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.

[2] The Catastrophe Containment and Relief (CCR) Trust provides grant assistance to be used as debt relief for eligible countries confronting major natural disasters, including public health disasters.

and infrastructure. A gradual recovery in economic activity is projected to take hold in 2016, led by a rebound in services.

"The authorities remain committed to the broad objectives of the ECF-supported program. However, program implementation capacity has been hampered since the beginning of the crisis as the authorities focused on the emergency. Implementation of structural reforms has also been delayed by the limited functioning of the public sector due to the Ebola outbreak. Large financing gaps are estimated for 2015–16, and reserves coverage could decline significantly in 2015 in the absence of additional financing. Fund financial assistance, together with debt relief from the CCR Trust, will help boost central bank reserves to meet market demand for foreign exchange, while acting as a catalyst for additional grant financing from other official and private creditors**.**

"Fiscal policy should continue to remain accommodative to meet spending priorities relating to the epidemic, subject to the availability of financing. Continued improvements in public financial management and transparency in the use of external resources will be key to unlocking further donor budget support. Emergency social safety nets need to be deployed to address rising poverty and food insecurity. Over the medium term, rebuilding a resilient health system should remain a priority.

"Greater exchange rate flexibility is desirable to maintain adequate reserves in the context of a prolonged crisis. Continued close monitoring of monetary and financial sector conditions, as well as enhanced liquidity management, are essential to contain any lingering vulnerabilities in the financial system. Going forward, the central bank plans to develop a framework for the provision of emergency liquidity support to banks, supported by Fund technical assistance, will help enhance the resilience of the banking system."

Statement by Chileshe Mpundu Kapwepwe, Executive Director for Liberia and Tharcisse Yamuremye, Advisor to Executive Director
February 23, 2015

I. Introduction

The Liberian authorities appreciate the continued engagement and support from the Fund in the effort to address the extensive socio-economic challenges related to the Ebola Disease Virus (EVD) outbreak. The ongoing Ebola epidemic has taken a heavy toll on the Liberian population and economic activity. The epidemic has disrupted the agricultural sector causing food insecurity and exacerbating poverty. Despite the significant progress in containment of the disease, the World Health Organization (WHO) warns that under-reporting of new Ebola cases and deaths persists. However, recent data indicates a sharp decrease of new infections and schools are now partially opened.

Economic growth is estimated to contract in 2015 and recover in 2016 with a rebound in services sector. The current account deficit is expected to widen driven by a decline in exports and high imports needs, while the reserves coverage could decline by end December 2015, in the absence of additional financing. The situation is also being compounded by the decline in international iron ore prices. The authorities, in collaboration with international community, are working to eradicate the disease in order to rejuvenate economic activity and restore macroeconomic stability. Against this backdrop, they are requesting for disbursement under the Rapid Credit Facility (RCF) and Debt Relief under the Catastrophe Containment and Relief (CCR) Trust to bridge the enormous financing gap resulting from the Ebola outbreak.

II. Request for RCF and Debt Relief under CCR Trust

Despite the difficult environment, the authorities are still committed to implementing the ECF program in line with its post Ebola Economic Stabilizing and Recovery plan. The indicative targets and performance criteria were broadly met despite the deteriorated implementation capacity. On the structural front, notwithstanding the limited functioning of the public sector, some key structural reforms were completed, including the establishment of the Liberia Revenue Authority (LRA), installation of the Civil Service Management module, approval of the Insurance Act, and merging the Ministries of Planning and Economic Affairs.

However, due to lack of a comprehensive review on a regular basis owing to the difficult environment, normal disbursements under the ECF program have stalled. Thus, the disbursement under the Rapid Credit Facility (RCF) and debt relief under the Catastrophe Containment and Relief trust (CCR) will help the authorities to cope albeit partially with urgent budgetary and balance of payment needs. Moreover, in the highly dollarized financial system, these resources will strengthen the CBL’s capacity to respond to potential liquidity needs.

III. Macroeconomic Policies and Outlook

Fiscal policy

Fiscal performance has been constrained by the revenue shortfall, reflecting the decline in economic activity. However, the central government's FY2014 fiscal deficit remained broadly unchanged at about 1.2 percent of GDP compared with FY 2013 due to significant under-execution of public investment and the impact of the payroll cleanup on the wage bill. Although, the FY2015 budget deficit is set to expand significantly in response to the Ebola crisis, the revenue performance in the first half of FY2015 is broadly in line with the revised budget.

In response to the Ebola outbreak, the authorities remain committed to pursuing an accommodative fiscal policy while avoiding a rapid increase in debt burden. To mitigate the revenue shortfalls owing to the weak economic activity, the authorities are strengthening tax administration and compliance toward Liberia Revenue Authority (LRA) to boost tax collection even after the economy bounces back. While the authorities are ready to support safety net spending to protect the poorest households, they are also convinced that for a strong inclusive growth it is important to continue implementing the public investment program to build the capacity for economic activity. In addition, the authorities will continue to strengthen public financial management and budget process. To this end, they are committed to swiftly finalizing the audit of the off-budget road contracts at the Ministry of Public Works and enhancing public procurement. In addition, the authorities have launched a process to recruit an international accounting firm to assist the government with the financial management of the Ebola Trust Fund.

Monetary and Financial Sector Policies

Maintaining price stability is a key objective of monetary policy. In this regard, while the declining international oil prices have mitigated inflation pressures, the Central Bank of Liberia (CBL) is improving liquidity management to rein in inflation. Further, the authorities are committed to maintaining a flexible exchange rate policy. However, at the onset of the Ebola crisis, exchange rate pressures have prompted the CBL to intervene to stabilize the market.

Financial sector stability has been threatened by the weak economic activity. Given the uncertainties, real private sector credit growth dropped to 19.6 percent in November 2014 from 40.4 percent at end November 2013. Non-performing Loans (NPLs) reached 18.2 percent in November 2014 compared to 14.8 percent in December 2013.

Cognizant of the important role of the financial sector in boosting economic activity, the CBL announced policy measures in late December 2014 to mitigate the impact of the Ebola outbreak on commercial banks to ensure stability in the financial system. In this regard, the CBL will effect various measures including exercising dispensation on specific regulations in order to reduce the provisioning burden on NPLs associated to the Ebola crisis, waiving default charges and interest accrual on delinquent facilities. The policy decisions of the CBL are restricted to a defined period classified as "Ebola Crisis Period" from around July 2014 to June 2015.

IV. Conclusion

The Liberian authorities are committed to swiftly tackling the Ebola outbreak to boost economic growth and reduce poverty. While they continue to implement the ECF program, they are aware that the program will need adjustments to take into account different shocks stemming from the Ebola crisis. Under the normalized conditions, we urge staff to seize the opportunity to ensure that there is comprehensive review of the ECF. Meanwhile, given the urgent budgetary and balance of payments needs, the authorities are requesting the Executive Board to approve the disbursement under the Rapid Credit Facility (RCF) and debt relief under the Catastrophe Containment and Relief Trust (CCR). Though these resources represent one third of the financial needs, the authorities expect that RCF and CCR will play a catalytic role and foster donor support to the country and help the Government to implement current and post-Ebola programs and support the achievement of broad based growth, and sustainable development.