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LIBERIA

September 2022

2022 ARTICLE IV CONSULTATION AND FOURTH REVIEW OF THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND REPHASING OF ACCESS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBERIA

In the context of the Staff Report for the 2022 Article IV Consultation and Fourth Review of the Extended Credit Facility Arrangement, Requests for Waiver of Nonobservance of Performance Criterion, and Rephasing of Access, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its August 24, 2022 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 24, 2022, following discussions that ended on March 11, 2022, with the officials of Liberia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 10, 2022.
- A **Debt Sustainability Analysis** prepared by the staff[s] of the IMF and International Development Association
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Liberia.

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

Selected Issues

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

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PRESS RELEASE

PR22/290

IMF Executive Board Completes Fourth Review under the Extended Credit Facility Arrangement and Concludes the 2022 Article IV Consultation for Liberia

FOR IMMEDIATE RELEASE

- Global developments will dampen economic growth to 3.7 percent this year, but Liberia easily has the potential to grow by at least 5 percent annually.
- Quantitative program performance was quite strong while the implementation of the structural reform agenda incurred delays. Adoption of new anti-corruption legislation was good progress.
- Entrenching macroeconomic stability, achieving strong and fiscally sustainable economic growth, and addressing weaknesses in governance and public-sector institutions remain the main program objectives.

Washington, DC – August, 24th 2022: The Executive Board of the International Monetary Fund (IMF) completed today the 2022 Article IV Consultation and the fourth review under the Extended Credit Facility (ECF) with Liberia. The four-year arrangement, with total access of SDR 155 million (60 percent of quota or about US$214.30 million) was approved by the IMF Executive Board on December 11, 2019. Today's decision allows for an immediate disbursement of SDR 17 million (about US$ 22.1 million), bringing total disbursements under the arrangement to SDR 85 million (about US$ 110.7 million). In completing the fourth review, the Executive Board granted a waiver of nonobservance of the end-June 2021 quantitative performance criterion on net international reserves, based on corrective action taken by the authorities.

Liberia experienced a strong economic recovery in 2021. Growth is expected to soften to 3.7 percent in 2022, largely due to heightened global uncertainties and commodity price shocks, which are pushing inflation into the double-digits. Liberia 's COVID-19 vaccination program has accelerated in recent months, but pandemic-related risks, including a potential outbreak of new variants, remain. The upcoming political cycle with presidential and parliamentary elections, scheduled for September 2023, is another source of uncertainty.

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

The Liberian authorities continue to implement sound macroeconomic policies, despite delays with the broad-based reform agenda. The authorities managed to keep the program broadly on track by preserving macroeconomic stability, ensuring a comfortable international reserve position, and maintaining debt sustainability.

The supplementary budget for 2022 aims primarily to mitigate pressures on food prices and stabilize the state-owned electricity company. To limit the temporary widening of the fiscal deficit, the authorities have streamlined non-priority spending, while largely preserving the significant increase of public investment relative to previous years, made possible by partial use of the IMF's 2021 SDR allocation to Liberia.

The authorities should press ahead with fiscal structural reforms to make public services and public enterprises more efficient and to secure more permanent space for adequate public investment while preserving debt sustainability. Progress with mobilizing domestic revenues should be built upon, including by streamlining tax exemptions. Efforts to address capacity constraints that hamper selection, preparation, and execution of public investment projects need renewed impetus.

Macroeconomic stability is set to strengthen further with the planned modernization of Liberia’s monetary policy framework and the ongoing currency changeover, provided operational risks are appropriately mitigated.

Stepping up the fight against corruption remains a top priority. The recent adoption of the amended Liberia Anti-Corruption Commission (LACC) Act, the new Whistleblower and Witness Protection Act, and the revised Code of Conduct, is good progress. Swift implementation is now key.

The authorities are strengthening the growth leg of their reform program. In addition to pro-growth fiscal reforms and the fight against corruption, it will be important to fully see-through plans to improve the business climate and enable greater access to credit, including by facilitating the resolution of non-performing loans. Improving educational attainment, adapting to climate change, and addressing gender disparities are also critical

Table 1. Liberia: Selected Economic Indicators, 2019–27

	2019	2020	2021		2022		2023		2024	2025	2026	2027
	Est.	Est.	3rd Review	Est.	3rd Review	Proj.	3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)											
Real sector												
Real GDP	-2.5	-3.0	3.6	5.0	4.7	3.7	4.9	4.7	5.7	5.7	5.5	5.6
of which: Mining & panning	13.2	2.0	7.0	17.6	4.7	7.1	5.7	4.3	5.8	7.5	4.6	5.2
of which: Non-mining	-4.7	-3.8	2.9	2.8	4.7	3.0	4.7	4.8	5.6	5.4	5.7	5.6
Nominal non-mining per capita GDP (U.S. dollars)	531	507	584	567	618	625	625	659	653	677	710	750
Nominal GDP (millions of U.S. dollars)	3,080	3,037	3,426	3,509	3,698	3,938	3,847	4,236	4,339	4,636	4,968	5,354
Inflation												
Consumer prices (end of period)	20.3	13.1	9.7	5.5	12.3	11.7	6.4	6.9	5.2	5.0	5.0	5.0
Population (millions)	4.9	5.1	5.2	5.2	5.3	5.3	5.4	5.4	5.6	5.7	5.8	6.0
	(Percent of GDP)											
Central government operations[1]												
Total revenue and grants	27.4	31.3	30.7	27.3	28.9	24.2	28.0	24.1	24.0	24.2	24.7	24.9
Total revenue	13.9	15.9	17.8	16.4	17.2	16.4	17.4	16.1	16.3	16.7	17.1	17.2
Grants[2]	13.5	15.3	12.9	10.9	11.7	7.8	10.5	8.0	7.7	7.5	7.6	7.7
Total expenditure[2]	32.2	35.1	33.1	29.7	32.9	29.1	30.0	27.6	27.7	28.0	28.5	28.7
Current expenditure[3]	21.4	24.5	22.6	21.9	21.2	20.9	19.5	19.2	19.3	19.5	19.8	19.9
Capital expenditure	10.8	10.6	10.5	7.8	11.7	8.3	10.5	8.4	8.4	8.5	8.6	8.8
Overall balance, including grants[2]	-4.8	-3.8	-2.4	-2.4	-4.0	-5.0	-2.1	-3.5	-3.7	-3.8	-3.8	-3.8
Overall balance, excluding grants[2]	-18.3	-19.2	-15.3	-13.3	-15.8	-12.7	-12.6	-11.5	-11.4	-11.3	-11.3	-11.5
Total public debt (nominal)	48.5	58.7	56.1	53.2	59.0	54.6	59.4	55.3	56.9	56.4	55.6	54.8
Public external debt[4]	34.9	41.1	38.3	37.2	38.1	38.8	38.7	40.3	42.9	43.9	44.9	46.0
Public domestic debt[5]	13.6	17.6	17.9	16.0	20.9	15.8	20.6	15.0	14.0	12.5	10.7	8.8
	(Percent, unless otherwise indicated)											
Monetary sector												
M2/GDP	20.9	25.5	24.6	24.6	23.6	24.8	24.2	24.9	25.1	25.1	25.1	25.1
Credit to private sector (percent of GDP)	15.3	16.4	16.4	14.8	16.6	14.9	17.2	15.2	16.0	16.4	16.7	17.0
Credit to private sector (annual percent change)	-11.3	5.5	12.7	4.4	9.4	12.8	7.9	9.7	8.0	9.3	9.5	9.7
	(Percent of GDP, unless otherwise indicated)											
External sector												
Current account balance, including grants	-19.6	-16.4	-17.9	-17.7	-18.9	-16.0	-19.9	-15.3	-15.1	-14.9	-14.8	-14.6
Current account balance, excluding grants	-25.0	-23.7	-23.7	-22.6	-24.1	-19.1	-24.2	-18.2	-18.2	-17.9	-17.6	-17.3
Trade balance	-12.8	-12.9	-12.6	-13.1	-10.8	-10.6	-10.2	-10.8	-9.6	-8.6	-8.5	-7.9
Exports	17.5	20.0	23.1	25.0	23.3	24.3	23.7	23.1	24.3	24.4	24.1	23.3
Imports	-30.3	-32.9	-35.7	-38.1	-34.1	-34.9	-33.8	-33.9	-33.9	-33.0	-32.5	-31.2
Grants (donor transfers, net)	5.4	7.3	5.7	5.0	5.2	3.1	4.4	2.9	3.1	3.0	2.8	2.7
Gross official reserves (millions of U.S. dollars)	292	358	716	700	719	691	769	750	784	828	881	927
In months of next year's imports	2.2	2.2	4.4	4.2	4.2	4.0	4.3	4.2	4.2	4.2	4.3	4.2
Net international reserves (millions of U.S. dollars)	27	0	392	387	362	352	401	384	451	523	611	690

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

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

[2] The total amount of external project grants and loans, along with the associated spending, has been revised down from 2021 onwards to reflect the revised authorities' database prepared together with donors.

[3] Estimates for 2021 include bank restructuring costs of 0.3 percent of GDP as expenditure.

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

[5] Including central government debt owed to the Central Bank of Liberia.

INTERNATIONAL MONETARY FUND

LIBERIA

August 8, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND FOURTH REVIEW OF THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND REPHASING OF ACCESS

EXECUTIVE SUMMARY

Context. Liberia is a fragile, low-income country. Per-capita income remains about a third of the level prior to the civil wars during 1989-2003. After a bout of economic instability, prudent monetary and fiscal policies reduced inflation to just over 5 percent in 2021 and budgets are financed without recourse to central bank credit. Economic growth suffered first from macroeconomic instability and then from the COVID-19 pandemic. Growth rebounded to 5 percent in 2021 and, after a soft patch this year due to Russia's war in Ukraine, should reach 5-6 percent in the medium term if Liberia taps its clear potential through persistent structural reforms and prudent policies. The government's resolve will be tested in the runup to the general elections in September 2023.

Program status. The four-year ECF arrangement was approved in December 2019 (SDR 155 million, 60 percent of quota). It is anchored by the government's Pro-Poor Agenda for Prosperity and Development and focuses on restoring macroeconomic stability, putting Liberia on a fiscally sustainable growth path, and addressing weaknesses in governance and public-sector institutions. The third ECF review was concluded in November 2021. Liberia also benefitted from the Rapid Credit Facility in June 2020, debt service relief from the IMF's Catastrophe Containment and Relief Trust during April 2020 to April 2022, and the general SDR allocation in August 2021. Financial support from the IMF since program inception totaled some US$550 million (14 percent of GDP), most of which went toward the strengthening of Liberia's international reserves.

Program performance. Quantitative program performance was quite strong. Five out of six performance criteria and four out of five indicative targets for this review were met, whereas the execution of the structural reform agenda incurred many delays. Ahead of the review several overdue structural benchmarks were implemented though, including the adoption of improved anti-corruption legislation.

Program commitments. The authorities commit to continued stability-oriented policies, including a currency changeover, the modernization of the monetary policy framework, responsible fiscal policy, which requires some consolidation after the significant widening of this year's deficit, and a strengthening of banking supervision. Their structural reform agenda supports these objectives, notably through measures to mobilize additional domestic revenues and reforms of mismanaged public agencies. A start is also being made to improve the business climate.

Requests. Staff supports the authorities' request for (i) a waiver of non-observance of a performance criterion; (ii) the re-phasing of the program; (iii) the resetting of several structural benchmarks to later dates; (iv) the modification of the performance criterion related to contracting external public debt; (v) the completion of the fourth program review; and (vi) the disbursement of SDR 17 million (6.58 percent of quota).

Approved By
Montfort Mlachila (AFR) and Gavin Gray (SPR)

Discussions were held February 28 to March 11, 2022 in Monrovia and virtual discussions on selected issues continued through mid-June 2022. The staff team comprising Mr. Klingen (Head), Mr. Matsumoto, Mr. Jenya, Mr. Molise, Ms. Jain (all AFR), Ms. Barrail (MCM), Ms. Kamali (SPR), Mr. Abdychev (res. rep.), and Mr. Deline (local economist) held discussions with President Weah, Minister of Finance and Development Planning Tweah, Central Bank Executive Governor Tarlue, Members of the Legislature, senior government and central bank officials, and civil society. Mr. Cipollone and Mr. Magno supported the team at headquarters.

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CONTEXT

1. **Liberia is a fragile, low-income country of 5.2 million**. Per-capita income is about a third of the level prior to the civil wars during 1989-2003 and stood at some US$680 per year in 2021. Liberia ranks 175th out of 189 countries on the UNDP's 2022 Human Development Index. The World Bank estimates a poverty rate of 51 percent in 2021. Infrastructure gaps are enormous with only 7 percent of roads paved and just 27 percent of the population having access to electricity. Needs on the educational front are just as high. Children attend school only 4.2 years on average and 2.2 years when learning adjusted. Limited access to financial services and shortcomings in the business climate, notably high levels of perceived corruption, hamper private sector development. Liberia is also highly vulnerable to climate change.

2. **Yet, much progress has been made**. Peace has held since the 2003 Accra peace accord—from early 2018 onward without support from the UN peace keeping mission UNMIL. Liberia is on course to be soon reclassified as non-fragile. Economic growth was very strong in the first ten years, though it slowed sharply thereafter, notably because of a series of negative shocks from the Ebola outbreak, lower commodity prices, the UNMIL withdrawal, and lately the COVID-19 pandemic. Liberia has strong economic potential due to its mineral wealth, fertile land, geographic location, language, opportunities in tourism, a large expatriate community in the U.S., and its legacy as a middle-income country.

3. **Since the inception of the ECF-supported program in December 2019, Liberia has successfully restored macroeconomic stability**. With prudent fiscal and monetary policies and the end of monetary budget financing, inflation has come down sharply, the exchange rate has lately appreciated in a U-turn from the past, and budgets have been consolidated. Following the general SDR allocation to Liberia, international reserves are now adequate. The Central Bank of Liberia (CBL) is getting ready to upgrade its monetary policy framework and is implementing a currency changeover. The Ministry and Finance and Development Planning (MFDP) continues efforts to mobilize more domestic revenues and to raise spending quality to be prepared should currently higher-than-normal financial support by development partners taper and to make room for much needed public investment.

4. **Yet, more time is needed for living standards to materially improve**. The economy went into recession in 2019 following a challenging change in administration and contracted again in 2020 in the wake of the COVID-19 pandemic. Robust growth came back in 2021 but did not make up for the earlier loss of per-capita income. Poor public services, such as recent high-visibility cases regarding electricity supply, airport safety, and trash collection, high levels of corruption, and fresh increases of gas and rice prices complicate the situation further. The fallout from Russia's war in Ukraine adds yet another challenge.

5. **The presidential and parliamentary elections scheduled for September 2023 are already looming large**. The government is coming under pressure to make more progress toward the objectives set out in its national development program—the Pro-Poor Agenda for Prosperity

and Development, which also anchors the ECF-supported program—and deliver tangible results for the common man and woman. While this could be an impetus for reforms, it could also give rise to populists moves and reluctance to take measures that could upset any constituency.

ECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

6. **Economic activity rebounded in 2021 and should remain fairly robust going forward**. Following a 3 percent contraction in 2020 brought on by the COVID-19 pandemic, real GDP expanded by 5 percent in 2021. The service sector recovered from the lockdowns and indicators for key industries signaled strength, including a plus of 40 percent in the rubber sector, 80 percent in gold mining, and 30 percent in cement production. Authorities and staff agreed that growth would likely soften to 3.7 percent in 2022 as petroleum price increases due to the war in Ukraine eat into households' purchasing power but that expansionary fiscal policy and good prospects for gold and rubber exports would soften the blow. Thereafter, growth should return to some 5 percent, driven by the mining and agricultural sectors, with knock-on effects for the wider economy, and as entrenching macroeconomic stability and reforms pay off.

7. **Price stability gains are consolidating**. Inflation came down to 5.5 percent at end 2021 from some 20 percent just two years earlier. Authorities and staff attribute this stabilization success to prudent monetary and fiscal policies, and a shortage of fit Liberian dollar (LD) banknotes. The CBL also saw stronger net remittances as an important driver that dampened inflation through the exchange-rate channel. Annual average inflation so far this year came to 7.2 percent, mainly reflecting rising international petroleum prices and shipping costs. There was consensus that inflation could reach into the double digits by end 2022, but that it should recede back to around 5 percent once the spike in international prices will have run its course.

8. **The current account deficit continues to be large but financed for now**. It widened somewhat to around 18 percent of GDP in 2021, reflecting strong imports during the pandemic. Despite the higher fuel import bill due to the war in Ukraine, it is projected to narrow to 16 percent of GDP in 2022 as imports normalize and gold and rubber exports thrive. In the IMF's External Sector Assessment, Liberia's external position is classified as substantially weaker than implied by fundamentals and desirable policies (Annex 1). However, much of the 2021 deficit was financed by project grants (5 percent of GDP) and loans from development partners (3 percent of GDP, excluding the SDR allocation), hence largely reflecting the effective absorption of foreign aid. Authorities and IMF staff shared the view that exchange rate depreciation would not do much to narrow the deficit, because the U.S. dollar dominates in Liberia's dual currency system and because notable export industries besides mining and rubber do not exist. Efforts should hence focus on de-dollarization and developing a tradable sector. Thanks to the SDR allocation (10 percent of GDP), Liberia's external reserve cover rose from a feeble 2.2 to a more-than-sufficient 4.2 months of imports. The authorities rightly intend to keep it at around 4 months of imports going forward.

9. **Fiscal policy remains stability oriented**. The 2021 fiscal deficit excluding budget grants and donor projects came to 0.9 percent of GDP, after 2.2 percent of GDP and 1 percent of GDP in

2020 and 2019, respectively. This is the combined result of fiscal overperformance in the July 2020–June 2021 budget on the back of good revenue results and some underperformance in the special budget covering July - December 2021. The latter was derailed when an expected large payment for a mining concession failed to materialize. To avoid payment arrears, the government reversed budget releases for which contracts with vendors had not yet been concluded and issued short-term T-bills to banks. The 2021 fiscal deficit came to 2.4 percent of GDP when donor projects are included. The authorities intend to stick to their prudent fiscal policy approach.

10. The baseline outlook is subject to downside risks (Annex 2). Authorities and IMF staff were both concerned about high gasoline and food prices, which push up already high poverty and could fuel social discontent. This heaps pressures on the government to grant subsidies. IMF staff pointed to difficult trade-offs—a US$1 subsidy per gallon of gasoline would cost as much as building 100 km of new roads. Rice subsidies have a higher poverty-alleviating impact and should be designed to maximize consumer relief. The authorities intend to stay away from fuel subsidies for now and broadly limit rice subsidies to offsetting the sharply higher shipping costs for imports. The potential outbreak of a pandemic with more lethal COVID-19 variants is another risk. The authorities are rightly driving the vaccination campaign forward. Close to 60 percent of the population have already been vaccinated. Liberia is also highly exposed to global climate change. IMF staff also sees a risk that the government could be tempted to resort to costly quick fixes that fail to address underlying problems and to shy away from implementing difficult yet critical reforms in the runup to the elections. The ECF-support program provides a certain degree of protection though. The currency changeover comes with many operational challenges, but the CBL assured IMF staff that it is mitigating and managing all risks. The financial sector still faces challenges that hamper access to credit and financial services, thus weighing on economic growth. The authorities pointed to the many measures already taken and those in the pipeline.

PROGRAM PERFORMANCE

11. Overall quantitative program performance has been quite strong, although there have been delays to the structural agenda. (Text Table 1, MEFP ¶s 5 to 7 and Tables 1 and 2). The completion of the fourth ECF review is controlled by the quantitative targets for end-June 2021 and the continuous performance criteria. Five out of 6 performance criteria (PCs) and 4 out of 5 indicative targets (ITs) have been met. Due to the delays in concluding this review and the resetting of target dates in previous reviews, 18 structural benchmarks have become applicable. Of these, 2 have been met and a further 7 have been implemented after the deadline. For information and context, Text Table 1 also reports performance against end-December 2021 and end-March 2022 targets, which was also quite strong. While still tentative, outturns for end-June 2022 indicate that the program remains on track.

- **Quantitative targets**. Thanks to a strong fiscal performance in FY2020/21, most PCs and ITs for end-June 2021 were met. The miss of the net-international-reserve target was due to delays in implementing the currency changeover and bank recapitalization. The authorities request a waiver of non-observance as both reforms have meanwhile moved forward. A waiver of nonobservance for the transitory emergence of external payment arrears was already granted in the last review. As a safeguard against a repeat, the CBL and the MFDP have also signed an MOU in early 2022 that gives the central bank a stronger role in the servicing of debt. For end-December 2021, several fiscal targets were missed when anticipated revenues from the signing of a mining concession did not materialize. While the government successfully protected social spending throughout, it struggled to lift public investment, reflecting financing and execution challenges.

Text Table 1. Liberia: Program Performance Against Quantitative Targets

(I) Performance Criteria (unless otherwise indicated)			
	End-Jun. 2021 (Controlling for fourth review)	End-Dec. 2021 (For information)	End-Mar. 2022 (For information)
(1) Primary fiscal balance (floor)	Met	Not met	Met (IT)
(2) Non-concessional external debt (ceiling)	Met	Met	Met
(3) CBL's expenditures (ceiling)	Met	Met	Met (IT)
(4) External payment arrears (avoidance)	Not Met [1]	Met	Met
(5) International reserves of the CBL (floor)	Not Met	Met	Not met (IT)
(6) CBL direct credit to government	Met	Met	Met (IT)
(II) Indicative Targets			
(1) Fiscal revenues (floor)	Met	Not Met	Not Met
(2) Net domestic assets of the CBL (ceiling)	Met	Met	Met
(3) Social spending (floor)	Met	Met	Met
(4) Domestic payment arrears (avoidance)	Met	Met	Met
(5) On-budget capital spending (floor)	Not Met	Not Met	Not Met

[1] The nonobservance occurred in the second quarter of 2021 due to clerical errors in the processing of external debt service payments, leading to a small amount of external arrears that were subsequently cleared. They were incurred after the December 2021 test dates for the quantitative targets of the third ECF review but before the Executive Board meeting for completion of the third ECF review. Since this is a continuous PC under the ECF arrangement, a waiver of non-observance had to be requested and was granted by the Executive Board for the completion of the third ECF review.

- **Structural reforms**. Continued delays, which then lead to the piling up of incomplete reforms, reflects capacity constraints and difficulties to build support but also at times a lack of urgency. Generally, the CBL has made good progress with improving governance, auditing, and security arrangements. Financial sector reforms have been held up by the longer-than-expected process of addressing drafting issues in the new Financial Institutions Act (FIA) and outreach to the banking industry. The target dates for the associated SBs are proposed to be pushed back. Regarding governance, the passage of the Liberia Anti-Corruption Commission (LACC) Act, the Whistleblower and Witness Protection Act, and the Code of Conduct (*prior* *action*) constitute good progress. The audit report for the FY2019/2020 budget has recently been submitted to the Legislature (*prior action*). Implementation of the Treasure Single Account (TSA) is advancing but behind schedule and the authorities started focusing on SBs related to improving the business climate and streamlining tax exemptions only recently. The associated SBs are proposed to be reset for later.

12. On other key reforms, progress has been made with reforming the Liberian Bank for Development and Investment (LBDI) but delays in the preparation for the next stage of the currency changeover are concerning. The government has completed its recapitalization program for state-controlled LBDI and appointed new management (*prior action*). The currency changeover was off to a good start with the CBL successfully and transparently contracting the production of the new currency and managing the first emergency delivery of banknotes well. But delays in making a critical new processing facility operational have upended its Currency Changeover Implementation Plan and complicate the handling of the delivery of the bulk of the currency from August onward.

13. The authorities have implemented most recommendations of the 2019 Article IV consultation (Annex 3). Much of the Article IV advice was operationalized in the ECF-supported program of December 2019, which helped drive implementation forward.

POLICY DISCUSSIONS

Policy discussions covered the three anchors of the government's ECF-supported program—macroeconomic stability; fiscally sustainable growth; and addressing weaknesses in governance and public-sector institutions. The 2022 Article IV consultation allowed a deeper dive into the strengthening of the monetary policy framework in support of macroeconomic stability and into measures to better tap Liberia's economic potential in support of sustainable growth, along with climate change adaptation.

A. Further Entrenching Macroeconomic Stability

14. The CBL intends to retain its current moderately tight monetary policy stance to largely lock in the low inflation rates achieved after unexpectedly rapid disinflation. Interest rates will be kept at 20 percent with monetary aggregates closely monitored through a new currency management system developed with support from IMF experts. Some additional inflation imported from world markets will rightly be accommodated, but monetary policy continuity should help preserve the medium-term disinflation trend toward an inflation rate of some 5 percent. IMF staff supports this approach, adding that the many uncertainties surrounding the currency changeover also argued for continuity.

15. The currency changeover will be a boon for the economy, but operational risks are considerable. IMF staff had all along been concerned about replacing the entire currency stock by a new family of banknotes and newly introduced coins, arguing that a reprinting exercise would have addressed the shortage of fit banknotes faster and with less operational risk. IMF staff took comfort, however, in the Currency Changeover Implementation Plan prepared in the context of the last program review. While key elements remain intact, such as a gradual approach where new denominations are introduced one at a time and the old currency remains legal tender for an extended period, delays in making a key processing facility operational rekindle concerns about the bulk delivery of new currency from August potentially overwhelming the CBL's capacities. At the suggestion of IMF staff, the CBL has somewhat pushed back the delivery schedule and is arranging for new storage and processing capacity, but at this point taking higher risk has become unavoidable.

16. Once the currency changeover is accomplished, the authorities should modernize the monetary policy framework to give monetary policy more traction.[1] Reforms are being accompanied by advice from IMF experts.

- **Current framework**. The CBL currently uses the CBL-bill interest rate as policy rate and its main communication tool. But since the outstanding CBL-bill stock is being held constant, recent interest rate moves have had little impact on banks' loan and deposit rates. Moreover, monetary aggregates are being targeted in parallel, including under the ECF-supported program, which can give rise to ambiguities about the monetary policy stance. With LD monetary aggregates heavily dominated by cash in circulation, the CBL is also constrained by LD banknote shortages.

- **Challenges**. Constraints from cash shortages will be fully lifted once banknotes and coins for all denominations will have been introduced toward end-2022 in the context of the currency changeover. However, an abrupt switch to a full-fledged interest rate based monetary policy framework could be premature considering that the necessary supporting infrastructure is not yet in place. There is no meaningful interbank market and no capital market or yield curve. The government rather places LD-denominated T-bills and T-bonds with only a few tenors directly with banks at negotiated interest rates. Moreover, Liberia's dual currency system, where LD and U.S. dollars are both legal tender, may make the composition of money demand highly sensitive to interest rates, which risks strong inflationary or deflationary pressures from small misjudgments in setting interest rates.

- **Reforms**. Deficiencies in the current framework should be resolved by clearly articulating reserve money as a medium-term operating target while at the same time using interest-rate based instruments in the implementation of monetary policy in the short-term and consistent with the monetary policy objective, resuscitating the interest corridor system, and conducting the auctions for longer-term CBL-bills at a variable rate tender. This will prepare the ground and the infrastructure for gradually deemphasizing intermediate targets on monetary aggregates and for the adoption of a modern monetary policy framework. IMF staff analysis shows that the exchange rate, currency in circulation, and the domestic currency component of narrow money could best serve as variables that provide useful information about the

[1]For more detail see Selected Issues Paper "Monetary Policy and De-dollarization in Liberia's Dual Currency System."

buildup of inflationary risks and thus guide monetary policy through this period of heightened uncertainty. As time passes, the CBL could deemphasize reserve money as the operating target and transition to an interest rate-based framework.

17. **The CBL broadly agreed with this analysis and way forward but emphasized that carrying out too many reforms—currency changeover, monetary policy framework, and de-dollarization—all at the same time could be problematic**. Moreover, articulating reserve money as the medium-term indicative target could be seen as a step backward from the current monetary policy communication through the interest rate. They welcomed the idea of CBL-bill auctions and committed to introducing them next June (*proposed SB for end-June 2023*).

18. **While these reforms will help monetary policy gain traction, a breakthrough will only come with de-dollarization, which will take a concerted effort and time to achieve**. IMF staff encouraged the authorities to draft a de-dollarization plan. Considering the international experience and Liberia's idiosyncrasies, such a plan could include prudential regulations that force banks to internalize the risks of operating in foreign currency and increase banks' incentives to focus on Liberian dollar deposits and loans, development of Liberian dollar debt markets, and increasingly conducting government business in Liberian dollars. These could be complimented by some administrative measures that are market friendly. IMF staff have advised against non-market-based approaches to de-dollarization as these are usually costly and could have unintended consequences. These measures would not only give monetary policy stronger traction, but also strengthen the CBL's lender-of-last resort function, earn Liberia seigniorage, and allow the exchange rate to serve as a shock absorber. The authorities broadly agreed and will try to conduct more of the government's business in LD rather than U.S. dollars, but for now the CBL is preoccupied with the currency changeover.

19. **The authorities acknowledged that the banking system faces challenges**. While system-wide capital and liquidity requirements are met, all but one bank breach the 10 percent regulatory ceiling for non-performing loans (NPLs) to different degrees and a few non-systemic banks fail to observe capital or liquidity requirements. Continuing weaknesses in credit quality and loan classification were identified in the CBL's latest on-site examinations, which revealed the need to improve underwriting standards, credit and evaluation approval processes, and credit monitoring. These findings have already prompted the CBL to require additional provisioning. Further vigilance is warranted and banks should be forced to recapitalize if needed. IMF staff supports the authorities' plans to strictly enforce NPL regulations, including writing off loans that have been non-performing for more than three years or become uncollectable, and to keep the CBL's Board of Governors (BoG) abreast of developments through quarterly reports. The CBL is exploring measures to support NPL recoveries, including applying regulation that allows it to deny delinquent borrowers access to banking services. Penalties for non-compliance with liquidity requirements will be enforced from the third quarter of 2022. IMF staff also urged the CBL to pressure undercapitalized banks to implement their reform plans more expeditiously.

20. **The authorities are advancing the restructuring of LBDI, but it has further to go**. The newly appointed management is rightly focusing on raising additional capital and securing more

liquidity to consistently and safely comply with regulatory requirements. IMF staff welcomed that the government would allow a dilution of its capital share in the process and is considering a more arms-length approach to managing the bank. But it is also an immediate priority to strengthen record keeping, step up NPL recoveries, and improve underwriting standards, while keeping operating costs in check and preserving liquidity. The process of restating LBDI's balance sheet in accordance with supervisory findings should be wrapped up as soon as possible. The special supervisory regime imposed by the CBL should remain in place for now. The authorities agreed with these priorities.

21. The supervisory framework for the financial sector is being strengthened. After extended consultations with stakeholders and IMF experts, the FIA is now ready to be sent to the CBL's BoG for approval ahead of the submission to the Legislature in September (*SB proposed to be reset to end-September 2022 from end-February 2022*). The Act will equip the CBL with additional powers to deal with distressed banks and with authority to impose supplementary capital buffers. Once the FIA is approved, the CBL will move ahead with the next steps, namely approving operational guidelines, policies, and manuals for bank resolution next January (*SB proposed to be reset to end-January 2023 from end-April 2022*) followed by assigning specialized staff for resolution issue next March (*SB proposed to be reformulated and reset to end-March 2023 from end-May 2022*). As the last step toward implementing risk-based supervision, the CBL aims to issue guidelines for banks in September (*SB proposed to be reset to end-September 2022 from end-April 2022*).

22. The main linkage between the financial sector and the macroeconomy is limited private sector access to financing and financial services, weighing on economic growth. Financial stability concerns are mitigated by the recent recapitalization of LBDI, the fact that pan-African banks account for most of the sector, limited bank exposure to the sovereign, and the currency reform, which ends periodic LD currency shortages. That said, high NPLs and weaknesses in loan classification are a concern. The bigger issue is limited access to credit, low levels of financial inclusion, and a large gender gap in financial access. This hampers private-sector led development. Private sector credit remains below the sub-Saharan Africa (SSA) average even when adjusted for income levels. The number of accounts per population also lagged peers but thanks to a sharp increase of mobile money accounts during the pandemic, it has now caught up with the SSA average. The gender gap remains among the region's largest.

23. Besides the currency changeover, a number of welcome reforms are in train that are conducive to financial deepening and inclusion. These include the establishment of a digital credit and collateral registry at the CBL and the development of a "national digital switch" to improve interoperability for digital payments. In line with its National Financial Inclusion Strategy, the government has already extended consumer protection to non-bank financial institutions. It should move forward with plans to better link Village Savings and Loan Associations and credit unions to the banking sector.

B. Toward Fiscally Sustainable Growth

24. Fiscal policy will have to straddle the competing objectives of protecting macroeconomic stability and enabling growth through investment and service provision. The authorities remain committed to refraining from monetary budget financing, prioritizing concessional external borrowing, and avoiding payment arrears. Space for public investment will open up over time as additional domestic revenues are mobilized and the wage bill is contained, which is still large despite the commendable reforms since 2019. It will be equally important to also tackle spending inefficiencies and management issues in public enterprises and agencies.

25. In formulating its medium-term fiscal policy, the government will be guided by the Debt Sustainability Analysis (DSA). It continues to assess Liberia's risk of distress for external public debt as moderate and as high for total public debt.[2] The authorities are determined to bring both ratings to moderate, which is already in striking distance. On this basis and subject to achieving economic growth of at least 5 percent per year on average, Liberia can afford fiscal deficits of up to 3 to 4 percent of GDP per year. Affordable deficits are larger than in previous reviews due to a change in the terms at which the World Bank provides financial support. Disbursements under operations approved after end-June 2022 are loans rather than the previous 50-50 mix of loans and grants. Since the concessionality of loans is augmented at the same time, deficits become larger but more affordable. In the case of Liberia, fiscal deficits rise by about one percent of GDP due to the World Bank's policy change.

26. A supplementary budget for 2022 in line with understandings with IMF staff that accommodates additional priority spending has been presented to the Legislature (*prior action*). The Legislature has since adopted it, with the minor change of adding a modest amount for regional development for which extra funding has already been received. Since the adoption of the original budget, some pressing new needs emerged that would have materially undermined the performance of the Liberian economy and social cohesion had they been left unaddressed.

- The **Liberia Electricity Company (LEC)** will be allocated US$18 million (0.5 percent of GDP) to avert its nearing collapse over dilapidated infrastructure, rampant power theft, and delayed connection to the regional power pool.

- The **Monrovia airport** will be allocated US$2 million (0.1 percent of GDP) to make repairs urgently needed to restore its safe operation after several incidents.

- US$11 million (0.3 percent of GDP) will be allocated to **stabilize rice prices** by offsetting sharply higher international shipping costs in the wake of global supply chain disruptions. Rice is Liberia's staple food and mostly imported. Its price is central for social cohesion and poverty alleviation.

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[2]See attached report Liberia: Fourth Review under the Extended Credit Facility Arrangement and 2022 Article IV Consultation—Debt Sustainability Analysis.

The additional outlays were covered by a net expenditure reduction in the context of reshuffling other expenditure items (US$11 million, 0.3 percent of GDP), along with additional resources from the World Bank (US$15 million, 0.4 percent of GDP), and a mining concession (US$5 million, 0.1 percent of GDP). Part of the IMF's SDR allocation to Liberia originally intended for the buy-back of T-bonds was repurposed to instead retire the T-bills issued last year to avoid payment arrears in the face of revenue shortfalls. Overall, the 2022 fiscal deficit (excluding budget grants and donor projects) reaches 2.4 percent of GDP, compared to 0.9 percent of GDP in 2021, while largely preserving the significant increase in investment of the original 2022 budget. The 2022 budget deficit inclusive of grants and donor projects comes to 5 percent of GDP, after 2.4 percent of GDP in 2021. This strikes an appropriate balance under the circumstances in the view of the authorities and IMF staff.

27. IMF staff expressed concerns about such budget pressures persisting. With the 2022 budget benefitting from exceptional resources, including the on-lending of US$80 million (2 percent of GDP) from the SDR allocation by the CBL, financing will become more difficult going forward. In the absence of practical targeting mechanisms, subsidies can quickly become prohibitively expensive and difficult to reverse in an election year—a US$1 per gallon subsidy on gasoline costs about 2.5 percent of GDP and a 20 percent subsidy on imported rice some 0.5 percent of GDP. Public entities should be reformed rather than subsidized. The authorities agreed in principle. They hope to be able to stay away from fuel subsides this year and will reform public entities, although LEC may require additional emergency support of around 1 percent of GDP that would need to be managed in the 2023 budget.

28. The authorities intend to bring next year's fiscal deficit down from the currently elevated levels. They are firmly committed to building the 2023 budget around the imperatives of the DSA and financing constraints. The latter are more binding, as they essentially limit the deficit to what can be covered by financial support from development partners and a further drawdown of the SDR allocation. It will therefore be important that the authorities (i) see through their extensive fiscal structural reform agenda, especially regarding domestic revenue mobilization and spending efficiency; (ii) phase out the rice subsidy as international shipping costs normalize; (iii) avoid fuel subsidies; and (iv) swiftly reform public enterprises to reduce their budgetary burden. Constraints could be less tight than programmed if Liberia benefitted from another mining concession payment or if donor support was tapered by less.

29. The authorities reiterated their continued commitment to fiscal structural reforms.

- **Regarding domestic revenue mobilization**, various initiatives to improve tax administration are advancing with the support of IMF technical assistance and guided by the recently extended Domestic Revenue Mobilization Strategy. Building on earlier narrowing of investment tax incentives, the authorities have identified seven areas for further streamlining, including duty waivers for parliamentarians and returning Liberians, tax withholding for government contractors, and exemptions granted by decree and in concession agreements (MEFP, ¶12, bullet 7). They committed to adopting a package of tax exemption reductions with a revenue yield of at least US$15 million (0.4 percent of GDP) in 2023 by October (*proposed SB for* *end-October 2022*). By September 2022, the government will also put all legal and regulatory requirements in place to integrate the Liberian Telecommunication Authority into the 2023 budget. The authorities are also making progress with their preparation to introduce a VAT to replace the general sales tax, but implementation before 2024 is unlikely considering the scale of the project.

- **Regarding spending efficiency**, a database is being established that facilitates improved matching of the allocation of teachers and health workers to the public's needs. The authorities also pledged to prepare a framework paper on the public investment management cycle with a view to better prioritizing projects and avoid undue implementation delays. Furthermore, they will protect capital spending by strictly following the Public Financial Management Act and the Budget Transfer Act in the virement of budget allocations from capital to recurrent spending.

- **Regarding public financial management**, the authorities commit to expeditiously see the TSA project through, drawing on the continued advice from IMF experts. In consultation with IMF staff, a list of the remaining accounts of Ministries, Agencies, and Commissions (MACs) at commercial banks destined for closures has been drawn up. The MFDP will use its authority to close them and transfer the balances to the CBL by September (*SB proposed to be reformulated and reset to end-September 2022 from end-December 2021*). In a second step, the account structure of the TSA at the CBL will be finalized and implemented (*SB proposed to be reformulated and reset to end-October 2022 from end-March 2022*).

- **Regarding public enterprises**, the authorities agreed that reforming LEC was an urgent priority, especially addressing rampant power theft of around 50 percent, connecting Liberia to the regional power pool CLSG, and repairing neglected infrastructure. New management is about to be appointed and reform discussions are well advanced. A comprehensive reform action plan validated by development partners already supporting LEC reforms will be adopted by cabinet in October (*proposed SB for end-October 2022*). The authorities are also pushing reforms of airport operations and are in the process of identifying new airport management.

30. The authorities broadly agreed with IMF staff analysis showing that the Liberian economy has good growth potential.[3] Since the end of the civil war in 2003, GDP growth has averaged 4.5 percent, with 6.5 percent in the first ten years and stagnation in the flowing ten years. While much of it reflects the swing from positive to negative shocks between the decades, there is also evidence of pronounced declines in the efficiency of investment and in labor productivity, manifesting themselves in falling total factor productivity (TFP). If TFP is restored to the post war average, education levels catch up with those in Ethiopia, and capital accumulation retains its historical pace, GDP would grow by 5-6 percent annually. Liberia's evident opportunities in the mining, agricultural, and tourism sectors, which could have a catalyzing effect for the broader economy, also speak to the economy's potential.

[3]For more detail see Selected Issues Paper "Liberia's Growth Potential and How to Get There."

31. There are two main fronts for policy action to unlock potential and to strengthen competitiveness:

- **Physical and human capital**. Infrastructure and education levels are highly inadequate, reflecting poor spending efficiency within sectors, insufficient prioritization of these sectors within the government's resource envelope, and a tight overall resource envelope. Liberia's investment efficiency is one of the lowest in SSA and education outcomes relative to student-teacher ratios compare unfavorably with peers. Over time, current spending has crowded out domestically financed investment to less than 0.5 percent of GDP, leaving infrastructure development in the hands of donors, and the budget allocation of the Legislature is as high as 70 percent as the one for the entire education sector. At some 17 percent of GDP, government's own revenues are limited, though not out of line with SSA generally. Efforts to mobilize more domestic revenues and to contain the wage bill to make room for investment are underway, but the distribution of resources across sectors and spending efficiency within sectors also deserve attention.

- **Business climate**. Business opportunities are also hampered by a poor operating environment, which features amongst the world's poorest. Corruption is a key factor, but there is a whole range of other issues.[4] To make tangible progress, the authorities considered it most effective for purposes of the ECF-supported program to focus on the areas of (i) facilitating trade across borders and inside Liberia where excessive security checkpoints are a major impediment; (ii) registering businesses through digitalization, harmonization, and establishing a one-stop shop; and (iii) the enforcement of contracts by strengthening the Commercial Court. These plans are still rather general at this point, but the authorities have initiated consultations with stakeholders and commit to develop an implementation plan with concrete actions, milestones, and responsibilities by December (*SB proposed to be reformulated and rest to end-December 2022 from end-March 2022*). Other commendable reforms, which are at different gestation stages, are being pursued in parallel: digitalization of port procedures in a collaboration between the port and revenue authorities, measures to improve access to finance, and considerations to establish an appeals court to alleviate chronic backlogs at the Supreme Court. The government has also largely avoided new arrears to vendors in the past few years.

32. To alleviate potentially grave welfare losses from climate change, the authorities should focus on putting adaptation measures and verification processes for carbon credits in place.[5]

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[4]For example: (i) unclear property rights with only 20 percent of land deeded, (ii) absence of bankruptcy legislation, (iii) difficult access to laws and regulations, (iv) regulations adopted without consultation and impact assessment, (v) no oversight mechanisms to ensure that administrative procedures are followed, (vi) reservation of certain sectors for Liberian nationals and general minimum investment requirements for foreigners; (vii) excessive physical inspection of imports at ports for lack of a risk management approach; (viii) absence of a well-functioning credit register, etc.

[5]For more detail see Selected Issues Paper "Dealing with Climate Change in Liberia."

- **Risks from climate change**. Liberia ranks as the 177th most vulnerable and 165th least ready country among the 182 countries covered by the "ND-GAIN Index." With the projected rise of temperatures in Liberia similar to global trends, high vulnerabilities rather arise from (i) heavy reliance on climate sensitive sectors such as agriculture, which accounts for 40 percent of employment, and fisheries, which provide 65 percent of the population's protein intake; (ii) susceptibility to flooding, as Liberia is one of the world's wettest countries, and the spread of waterborne diseases due to poor sanitation systems; and (iii) low-laying coastal areas that are home to 60 percent of Liberia's population. Low levels of education, an unfavorable business climate, and pervasive corruption explain Liberia's low readiness rating.

- **Liberia's climate change institutions and policies**. The National Climate Change Steering Committee has overall coordination and supervision responsibility and is supported by the National Climate Change Secretariat housed in the Environmental Protection Agency (EPA), which is also the designated national authority under the UN Framework Convention on Climate Change (UNFCCC). Liberia's action plan for implementing its climate change strategy is costed at US$2 billion (50 percent of GDP), of which 60 percent are devoted to mitigation efforts and 40 percent to adaptation measures. In its National Defined Contribution, Liberia commits to reducing emissions by 64 percent by 2030. Adaptation polices are guided by dedicated, comprehensive action plans, with eight key priorities, including in agriculture, fisheries, water, and coastal zones. However, implementation has been hampered by financial constraints, lack of awareness, limited technical expertise, and insufficient political will according to Liberia's first communication to the UNFCCC.

- **Policy recommendations**. Liberia is a net carbon sink due to its rain forest and limited emissions, which correspond for all its 5.2 million inhabitants to that of 87,000 U.S. residents. Given its vulnerability to climate change, Liberia may want to increase adaptation measures more aggressively. Financing is a serious constraint that further international support could help alleviate. Development partners encouraged the authorities to put in place verification systems for carbon credits, which would help Liberia unlock more international financial support. The MFDP said that this work had begun. IMF staff also suggested that the climate change dimension be systematically considered in public investment planning. Low cost-measures, such as climate-conscious zoning and extension services, are low-hanging fruit ready to be picked.

C. Addressing Weaknesses in Governance and Public Institutions

33. Despite welcome steps to upgrade the framework to fight corruption and strengthen governance, improvements on the ground are slow in coming. Surveys find that corruption is widespread, echoing other analyses, which identify weaknesses in:[6] fiscal governance (fiscal transparency, revenue institutions, public financial management controls, procurement, spending

[6]Ninety percent of Liberians think that corruption is high in their country and most of them do not have confidence in any state branches to fight it. (see: CENTAL, Transparency International: State of Corruption Report—Key Developments plus Citizens' Views and Experiences of Corruption, 2021 (State of Corruption Report 2021 - Center for Transparency and Accountability in Liberia (cental.org.lr).)

outcomes), central bank governance, the regulatory framework (regulatory management practices and trade facilitation), and the rule of law (contract enforcement and investor protection).

34. Expeditious implementation of the new LACC Act is now key. It substantially strengthens the LACC by granting it new first-tier prosecutorial powers, by fostering its independence, and by putting it in charge of administering the asset declaration system for high-level public officials. It resets the LACC by appointing, or reappointing, all commissioners according to a new process designed to ensure maximum integrity and impartiality. Civil society, other integrity institutions, and development partners will nominate a selection committee that draws up a shortlist of candidates from which the President will pick commissioners for confirmation by the Senate. Once a new commission is in place, the LACC's new prosecutorial powers will take effect. However, in a setback, the new Act removes sections of the previous law that explicitly provided the LACC with powers to freeze and seize assets. It will be important to ensure that these changes do not undermine the ability to recover the proceeds of corruption. The authorities aim to constitute the selection commission by end-August, finalize the shortlist of commissioners by mid-October, and nominate commissioners by end-October.

35. The authorities intend to further increase fiscal transparency. Budget audits will be submitted to the Legislature and published with shorter lags, with the one pertaining to FY2020/21 slated for September (*proposed SB for end-September 2022*). The Public Procurement and Concession Commission (PPCC) has published almost all contracts for FY2020/21 and the posting of those for the special budget period is well underway.[7] Supplementary information on winning bidders is being upgraded with the help of the Liberia Business Registry and through the PPCC's vendor registry to disclose beneficial ownership where it may deviate from legal ownership, which is already published. IMF staff encouraged the authorities to follow through with their plans to incentivize agencies to promptly submit all contract information to the PPCC by otherwise withholding funds and to better address shortcomings identified in audit reports.

36. Progress on some safeguards-related issues has been noted. The CBL's 2020 annual financial statements have been published, though they were only finalized in March 2022. Nonetheless, the audit opinion was clean. The 2021 audit has been delayed and is expected to be finalized in 2022Q3. The end-December 2021 foreign exchange audit (*recurrent SB*) was completed in February 2022 and did not raise any significant issues. Internal audit has continued with the co-sourcing arrangement and expects to issue its first annual report on 2021 in August. While the CBL had undertaken to prepare quarterly compliance reports for submission to the BoG starting with 2022Q1, the authorities have faced challenges in this area, including staffing, and have requested additional time to deliver on this item (*recurrent SB proposed to be reset to 2022Q4 from 2022Q1*). Separately, IMF staff is following up with the CBL on other outstanding recommendations and

[7] https://ppcc.gov.lr/2content.php?sub=152&related=34&third=152&pg=sp, https://ppcc.gov.lr/2content.php?sub=156&related=34&third=156&pg=sp, https://gac.gov.lr/wp-content/uploads/2022/05/Management-On-the-Audit-of-GOL, and https://gac.gov.lr/wp-content/uploads/2022/05/AGs-On-the-Financial-Statement.

stressed the need to set out clear procedures for the currency changeover and to ensure close adherence to them.

37. To strengthen the effectiveness of integrity institutions, their allocations have been substantially increased in the 2022 budget. Resources for the LACC, the PPCC, and the General Audit Commission are set to rise by over 25 percent compared to the special budget outturn. IMF staff encouraged the authorities to protect these allocations in budget execution and to release allotments on a quarterly basis.

38. The pending AML/CFT legal reforms should be finalized as a matter of priority and the effective implementation of the AML/CFT framework should be emphasized. The new AML/CFT Act will establish a National Steering Committee comprising all major stakeholders to develop a coherent strategy for implementation and oversight. In this context, provisions for the identification and verification of beneficial owners, management of accounts by politically exposed persons, and fit and proper rules for managers of financial institutions deserve particular attention. The new Financial Intelligence Act will upgrade the Financial Intelligence Unit (FIU) to an agency with an improved governance structure. Both bills acts are currently in the Senate-House conference. A swift passage of these acts is particularly important given that the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) is scheduled to commence its mutual evaluation of Liberia this September. As part of this evaluation, Liberia will need to show alignment of its AML/CFT legal framework with the international AML/CFT standards and demonstrate effective implementation. Unless sufficient progress is made, Liberia risks being designated as a "jurisdiction with increased monitoring," with adverse economic consequences. Close cooperation between the FIU, the CBL, and other relevant AML/CFT agencies, along with capacity building while preserving the independence of such agencies, are essential for ensuring effective application of the AML/CFT regime. The authorities may also contemplate concluding an MoU between the CBL and the FIU.

D. Program Modalities, Repayment Capacity, and Capacity Building

39. Regarding program modalities, staff supports the authorities' requests to:

- **Rephase the ECF arrangement** to account for the delays in the conclusion of reviews thus far. With the end-December 2021 and end-June 2022 test dates for the fifth and sixth review already past, the next review will be based on the observance of performance criteria for end-September 2022. The total number of reviews will be reduced to seven from eight, with the previously envisaged disbursement for the eighth review equally distributed over the remaining reviews. Given the delays in implementing the structural reform agenda and considering that the large SDR allocation has eased near-term external financing needs, IMF staff proposes rephasing the program rather than combining reviews.

- **Be granted a waiver for the non-observance of the end-June 2021 PC on net international reserves** on the basis of corrective action taken by the authorities. The deviation was transitory due to delays in bank recapitalization and the implementation of the currency changeover. The

CBL and MFDP are now also more closely cooperating on foreign exchange purchases by the CBL from the government.

- **Reset and reformulate several SBs** to account for actual and prospective implementation delays (MEFP Tables 4 and 5).
- **Replace the PC on external public debt**. In keeping with the IMF's new debt limits policy, a ceiling on the present value (PV) of newly contracted public or publicly guaranteed external debt will substitute for the ceiling on the contracting of new non-concessional external debt of the public sector from September 2022 onward. For 2022 and 2023, newly contracted external debt comprises mostly borrowing from the World Bank, the African Development program, the Arab Bank for Economic Development, and the governments of Kuwait and Saudi Arabia. The ceiling is an integral part of the government's fiscal program and the macroeconomic policy framework.
- **Receive the disbursement of SDR 17 million attached to this review**. PCs, ITs, and SBs through June 2023 are set out in Tables 1, 4, and 5 of the MEFP.

40. Liberia's capacity to repay the Fund remains adequate, but the country's exposure to Fund resources is high and program risks are significant. Total outstanding credit to the IMF accounts for some 23 percent of Liberia's total external public debt. Debt service to the Fund as a share of total obligations will peak in 2022 at 52.6 percent. Main program risks, including a weakened reform drive in the runup to the 2023 elections, are partly mitigated by the prior actions and program measures. The program remains fully financed with firm commitments for the next 12 months and good prospects for the remainder of the program.

41. Liberia benefits from intensive capacity development support by the IMF (Annex 4). A total of 63 activities took place in 2020-21, of which 57 were technical assistance missions. They are closely aligned with the structural agenda of the IMF-supported program and focus on (i) public financial management to improve budget control, spending quality, and transparency, (ii) revenue administration to support domestic revenue mobilization; (iii) banking supervision to underwrite financial stability; (iv) central bank operations to strengthen the monetary policy framework, governance arrangements, and the currency changeover; and (v) statistical issues to facilitate surveillance and program monitoring. Despite absorption challenges on the part of the authorities, capacity development support remains critical for driving structural reforms forward.

42. Data provision has serious shortcomings that significantly hamper surveillance. The authorities lack technical capacity to produce macroeconomic data in a timely manner, partly due to frequent personnel turnover. They realize the issue and technical assistance has been provided but the COVID-19 pandemic delayed the progress. Technical assistance will continue to assist capacity development at the statistical office.

STAFF APPRAISAL

43. **The economic outlook is favorable provided the authorities stay the course on macroeconomic stability and structural reforms**. Economic activity is likely to hit a soft patch in 2022 due to global developments and is subject to downside risks, but 5-6 percent growth is well within reach in the medium term. Realizing it requires policies that further entrench macroeconomic stability, that step up structural fiscal, financial sector, and business climate reforms, and that address climate change risks.

44. **Good progress is being made with strengthening the monetary-policy leg of macroeconomic stability**. Disinflation has been impressive. The modernization of the monetary policy framework and a concerted de-dollarization effort are the next frontiers. In the near term, the ongoing currency changeover is a boon for the economy, but the CBL needs to do its utmost to mitigate rising operational risks.

45. **Fiscal policy has been stability oriented as well, but underlying budgetary pressures and challenges to sustainably support growth need further addressing**. Fiscal consolidation through 2021 on the back of good revenue performance is commendable, the expansionary stance in 2022 is appropriate, and distress risk for external public debt continues to be rated moderate in the DSA. But challenges to permanently secure space for more public investment require further efforts to mobilize revenues, raise spending efficiency, contain the wake bill, phase out subsidies, and reform public enterprises to reduce their budgetary burden. It will be important that the 2023 budget makes progress on all these fronts.

46. **The authorities' reforms to address challenges in Liberia's financial sector are welcome and should continue**. The reform of LBDI is progressing and the new FIA will strengthen the CBL's supervisory toolkit. The CBL should step up efforts to tackle high NPLs and to ensure compliance with prudential ratios through strict enforcement of regulations and strengthening the operating environment for banks.

47. **The authorities' stability-oriented policy must be better flanked by private-sector development to boost growth and competitiveness**. Concrete and ambitious action plans to improve the business environment and their determined implementation are needed. Much remains to be done to improve the provision of public services, raise the efficiency of public spending, and address the mismanagement of public enterprises, notably LEC. Developing a strong private sector and a tradable sector holds the key to addressing the issues of Liberia's external position being assessed as substantially weaker than implied by fundamentals and desirable policies.

48. **The importance of fighting widespread corruption cannot be emphasized enough**. The adoption of the new LACC Act constitutes good progress. It now needs to be expeditiously implemented to make a material difference on the ground. Progress in public financial management, fiscal transparency, and CBL governance are commendable and should be built upon.

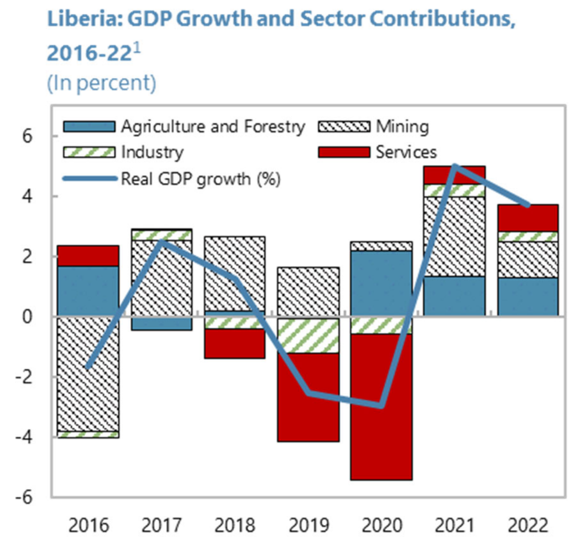
49. IMF staff supports the conclusion of the fourth ECF review. Program performance has been quite strong. Most quantitative program targets have been met and macroeconomic stability has been maintained. Many structural benchmarks have been missed and some had to be reset for later, but a good part has now been implemented. Overall, structural benchmarks, in conjunction with extensive capacity development support for the IMF, help drive the reform agenda forward. IMF staff also supports the granting of a waiver of non-observance of a performance criterion.

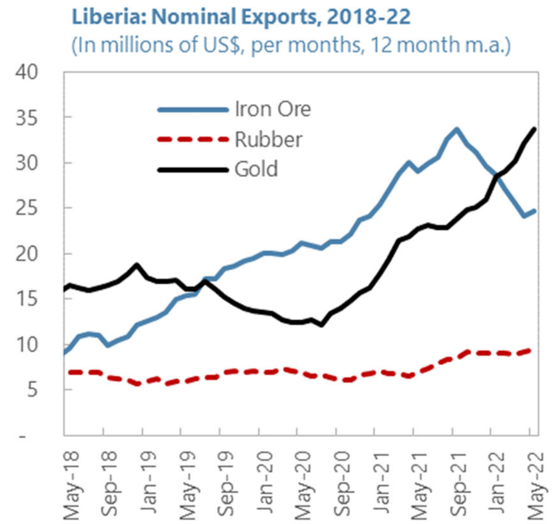
50. The next Article IV consultation should be held within 24 months in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Figure 1. Liberia: Recent Economic Developments

The services sector was hard hit by the pandemic in 2020 but all sectors have meanwhile returned to growth and …

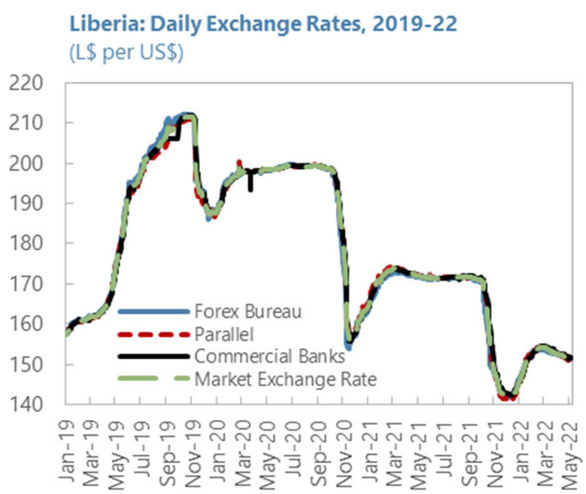
… exports benefitted from rebounding global prices in late 2020 but iron ore was lately hit by the slowdown in China.

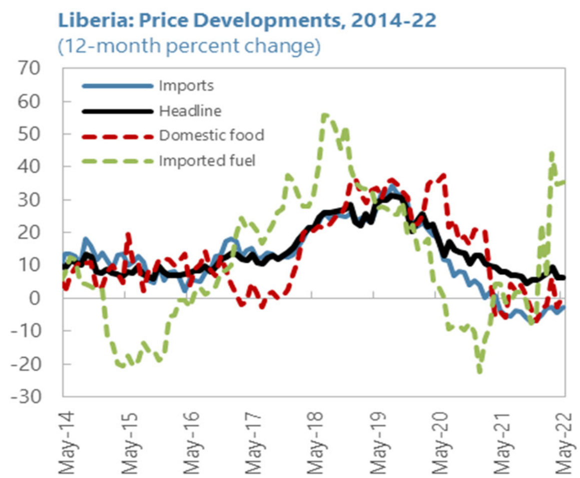




The exchange rate appreciated sharply in late 2020 due to acute LD banknotes shortage and stronger remittances, …

… which also accelerated disinflation with inflation only mildly rebounding in 2022, reflecting global prices tends.





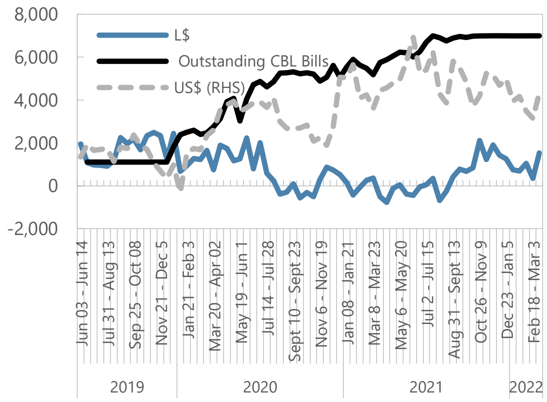
Sources: Central Bank of Liberia; and IMF staff calculations.

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

Figure 2. Liberia: Monetary Developments

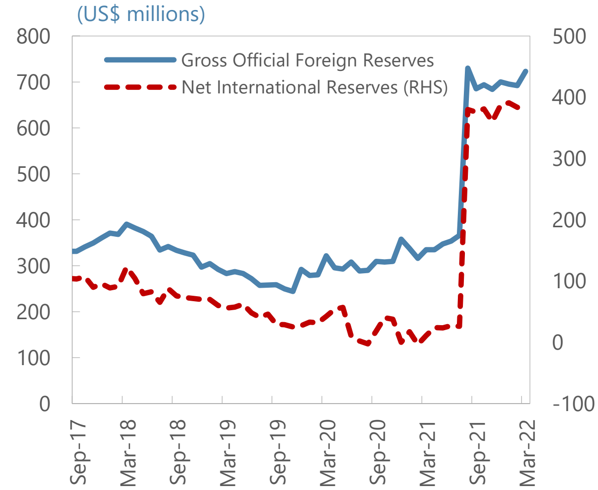
System-wide bank reserves have risen while the outstanding stock of CBL-bills has flatlined.

Liberia: Aggregate Excess Reserves and Outstanding CBL Bills, 2019-22
(In millions of US$ and L$, period average)



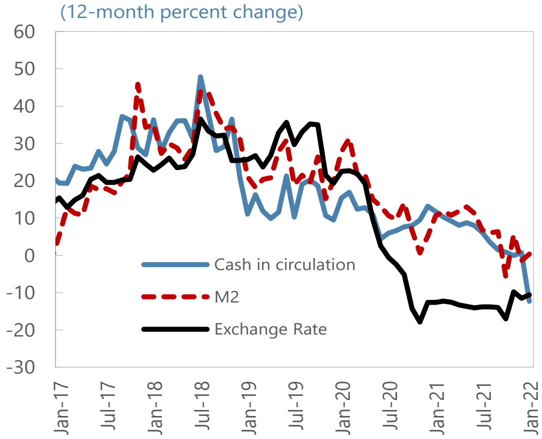
The IMF's general SDR allocation almost doubled Liberia's foreign reserves, which have remained stable since.

Liberia: Gross Reserves, 2017-22
(US$ millions)



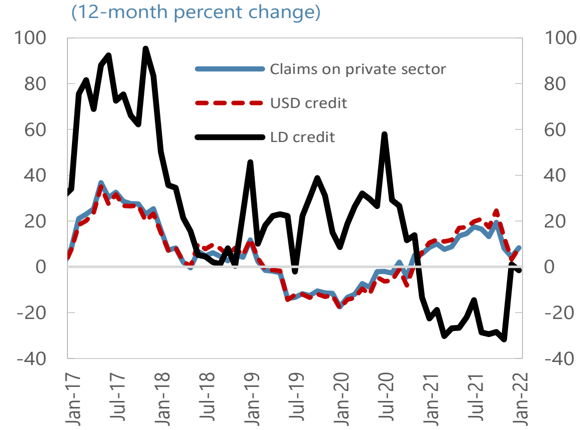
Growth of monetary aggregates slowed sharply due to tight monetary policy brought on by LD banknote shortages.

Liberia: Cash in Circulation Growth, 2017-22
(12-month percent change)



US$ denominated private sector credit started expanding again in late 2020 as pandemic pressures began to ease.

Liberia: Claims on Private Sector Growth, 2017-22[1]
(12-month percent change)

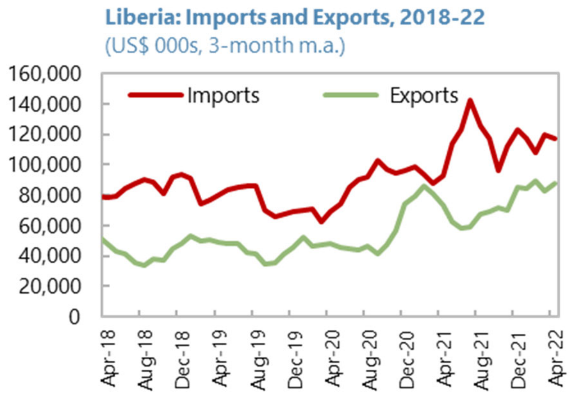


Sources: Central Bank of Liberia; and IMF staff calculations.

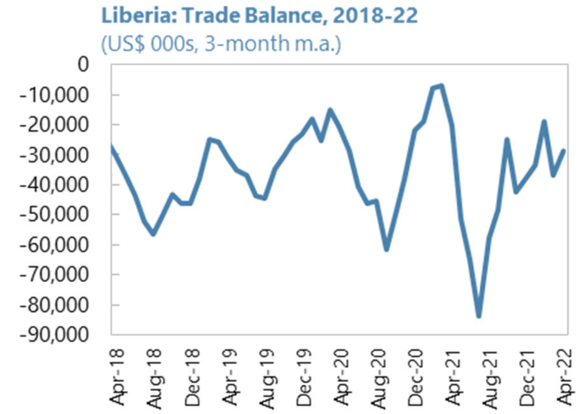
[1]A significant portion of Liberian credit is expressed in US Dollars, as such, private sector credit growth has been plotted using U.S. dollar values.

Figure 3. Liberia: External Sector Developments

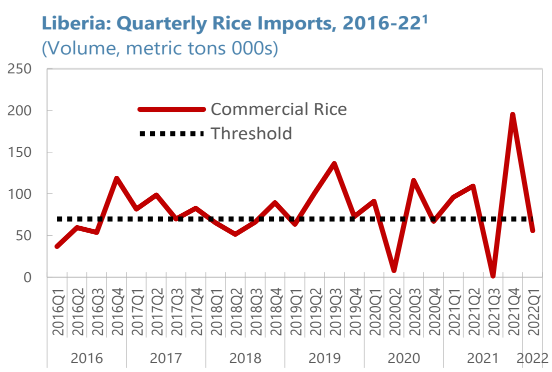
After a brief contraction in early 2020, imports surged and exports improved on the back of firmer commodity prices.



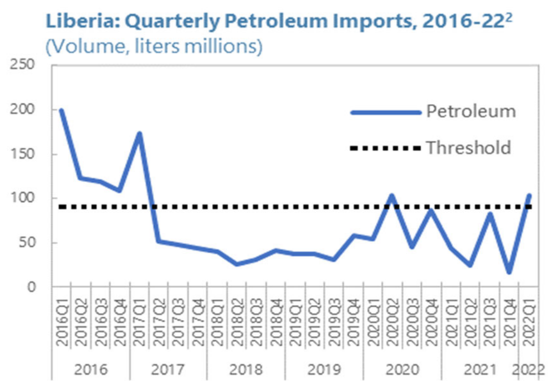
The trade balance was volatile but deteriorated only slightly from pre-pandemic levels.



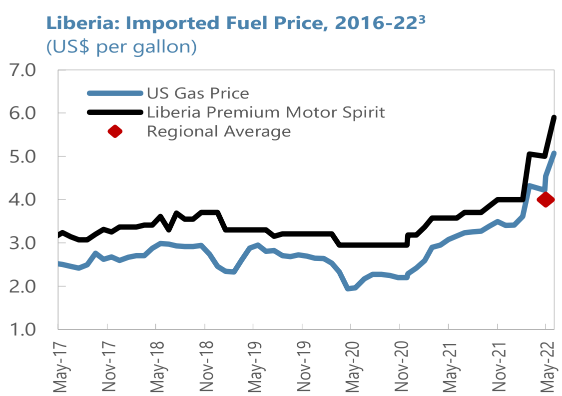
Imports of the staple food rice hover around what is considered the minimum but have become more volatile …



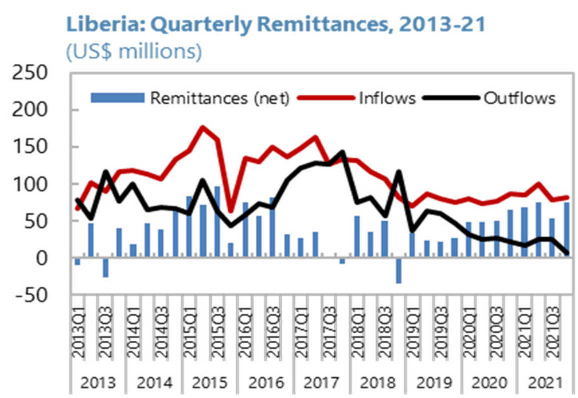
… while fuel imports remained stable.



Fuel prices in Liberia rose as international prices climbed and exceed those in the U.S. and the region.



Net remittances rose during the pandemic and supported the balance of payments and the exchange rate.



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

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

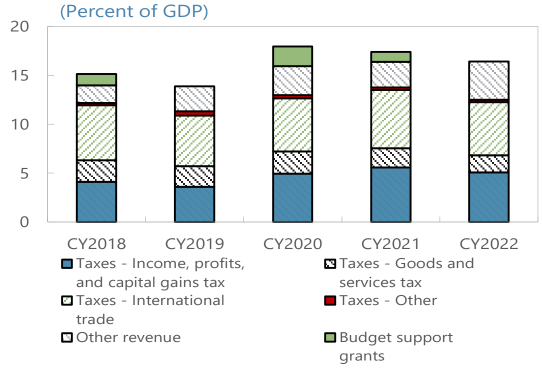
[2] Quarterly average fuel imports considered adequate by Liberia Peroleum Refining Company (LPRC).

[3] Regional average based on prices in ECOWAS commission as of December 2021.

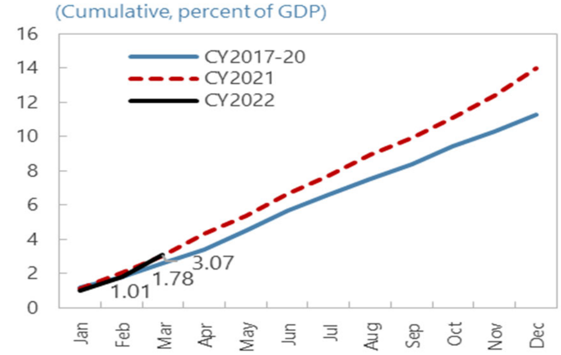
Figure 4. Liberia: Fiscal Performance, CY2017–22[1]

Revenue collections in 2020 and 2021 performed well and advanced relative to GDP despite the pandemic and are expected holding steady so far in 2022.[2]

Liberia: Revenue Composition
(Percent of GDP)

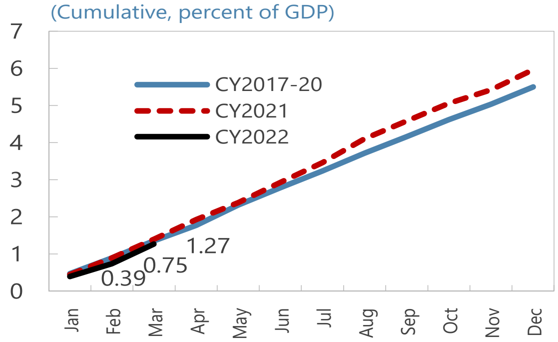


Liberia: Domestic Revenue
(Cumulative, percent of GDP)



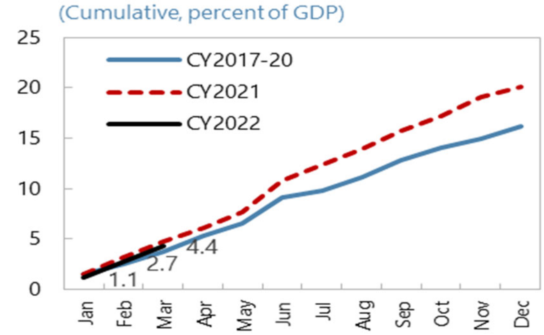
Trade taxes were a key revenue driver in 2021 but may contribute less in 2022 as import growth cools.

Liberia: Trade Taxes
(Cumulative, percent of GDP)



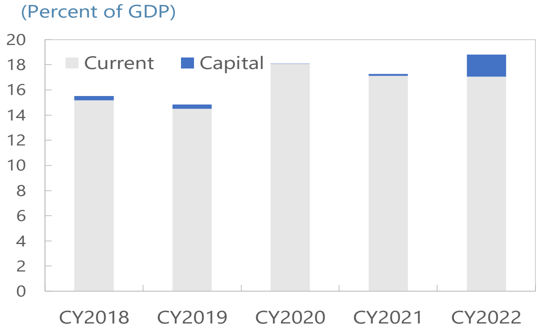
Expenditure was usually high in 2021-22, reflecting good revenues and stepped-up donor support.

Liberia: Total Expenditure
(Cumulative, percent of GDP)



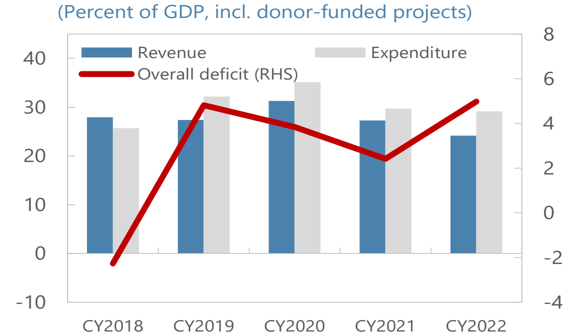
Domestically financed expenditure remains unduly tilted toward current spending.

Liberia: Expenditure Composition
(Percent of GDP)



Fiscal deficits narrowed after the bout of macro-economic instability in 2019 but remain elevated.

Liberia: Revenue and Expenditure
(Percent of GDP, incl. donor-funded projects)



Sources: Liberian authorities; and IMF staff calculations.

[1] Excludes donor-funded projects unless otherwise indicated. Data for CY2022 are projections.

[2] Note that the World Bank provided budget support as 50 percent grant and 50 percent loan until mid-2022. Therafter all its budget support takes the form of highly-concessional loans.

Table 1. Liberia: Selected Economic and Financial Indicators, 2019–27

	2019	2020	2021		2022		2023		2024	2025	2026	2027
	Est.	Est.	3rd Review	Est.	3rd Review	Proj.	3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)											
Real sector												
Real GDP	-2.5	-3.0	3.6	5.0	4.7	3.7	4.9	4.7	5.7	5.7	5.5	5.6
of which: Mining & panning	13.2	2.0	7.0	17.6	4.7	7.1	5.7	4.3	5.8	7.5	4.6	5.2
of which: Non-mining	-4.7	-3.8	2.9	2.8	4.7	3.0	4.7	4.8	5.6	5.4	5.7	5.6
Nominal non-mining per capita GDP (U.S. dollars)	531	507	584	567	618	625	625	659	653	677	710	750
Nominal GDP (millions of U.S. dollars)	3,080	3,037	3,426	3,509	3,698	3,938	3,847	4,236	4,339	4,636	4,968	5,354
Inflation												
Consumer prices (annual average)	27.0	17.0	8.4	7.8	11.5	7.8	8.3	8.7	5.2	5.0	5.0	5.0
Consumer prices (end of period)	20.3	13.1	9.7	5.5	12.3	11.7	6.4	6.9	5.2	5.0	5.0	5.0
Population (millions)	4.9	5.1	5.2	5.2	5.3	5.3	5.4	5.4	5.6	5.7	5.8	6.0
	(Percent of GDP)											
Central government operations[1]												
Total revenue and grants	27.4	31.3	30.7	27.3	28.9	24.2	28.0	24.1	24.0	24.2	24.7	24.9
Total revenue	13.9	15.9	17.8	16.4	17.2	16.4	17.4	16.1	16.3	16.7	17.1	17.2
Grants[2]	13.5	15.3	12.9	10.9	11.7	7.8	10.5	8.0	7.7	7.5	7.6	7.7
Total expenditure[2]	32.2	35.1	33.1	29.7	32.9	29.1	30.0	27.6	27.7	28.0	28.5	28.7
Current expenditure[3]	21.4	24.5	22.6	21.9	21.2	20.9	19.5	19.2	19.3	19.5	19.8	19.9
Capital expenditure	10.8	10.6	10.5	7.8	11.7	8.3	10.5	8.4	8.4	8.5	8.6	8.8
Overall balance, including grants[2]	-4.8	-3.8	-2.4	-2.4	-4.0	-5.0	-2.1	-3.5	-3.7	-3.8	-3.8	-3.8
of which : Budgetary central government	-1.0	-0.1	0.9	0.1	-0.8	-2.4	1.1	-0.3	-0.4	-0.2	-0.2	-0.1
Overall balance, excluding grants[2]	-18.3	-19.2	-15.3	-13.3	-15.8	-12.7	-12.6	-11.5	-11.4	-11.3	-11.3	-11.5
of which : Budgetary central government	-1.0	-2.2	-0.1	-0.9	-1.6	-2.4	0.8	-0.3	-0.6	-0.4	-0.3	-0.3
Total public debt (nominal)	48.5	58.7	56.1	53.2	59.0	54.6	59.4	55.3	56.9	56.4	55.6	54.8
Public external debt[4]	34.9	41.1	38.3	37.2	38.1	38.8	38.7	40.3	42.9	43.9	44.9	46.0
Public domestic debt[5]	13.6	17.6	17.9	16.0	20.9	15.8	20.6	15.0	14.0	12.5	10.7	8.8
Total public debt (present value)	…	…	39.7	38.9	42.8	37.4	43.0	36.7	36.9	35.9	34.6	33.4
	(Percent, unless otherwise indicated)											
Monetary sector												
M2/GDP	20.9	25.5	24.6	24.6	23.6	24.8	24.2	24.9	25.1	25.1	25.1	25.1
Credit to private sector (percent of GDP)	15.3	16.4	16.4	14.8	16.6	14.9	17.2	15.2	16.0	16.4	16.7	17.0
Credit to private sector (annual percent change)	-11.3	5.5	12.7	4.4	9.4	12.8	7.9	9.7	8.0	9.3	9.5	9.7
	(Percent of GDP, unless otherwise indicated)											
External sector												
Current account balance, including grants	-19.6	-16.4	-17.9	-17.7	-18.9	-16.0	-19.9	-15.3	-15.1	-14.9	-14.8	-14.6
Current account balance, excluding grants	-25.0	-23.7	-23.7	-22.6	-24.1	-19.1	-24.2	-18.2	-18.2	-17.9	-17.6	-17.3
Trade balance	-12.8	-12.9	-12.6	-13.1	-10.8	-10.6	-10.2	-10.8	-9.6	-8.6	-8.5	-7.9
Exports	17.5	20.0	23.1	25.0	23.3	24.3	23.7	23.1	24.3	24.4	24.1	23.3
Imports	-30.3	-32.9	-35.7	-38.1	-34.1	-34.9	-33.8	-33.9	-33.9	-33.0	-32.5	-31.2
Grants (donor transfers, net)	5.4	7.3	5.7	5.0	5.2	3.1	4.4	2.9	3.1	3.0	2.8	2.7
Gross official reserves (millions of U.S. dollars)	292	358	716	700	719	691	769	750	784	828	881	927
In months of next year's imports	2.2	2.2	4.4	4.2	4.2	4.0	4.3	4.2	4.2	4.2	4.3	4.2
Net international reserves (millions of U.S. dollars)	27	0	392	387	362	352	401	384	451	523	611	690

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

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

[2] The total amount of external project grants and loans, along with the associated spending, has been revised down from 2021 onwards to reflect the revised authorities' database prepared together with donors.

[3] Estimates for 2021 include bank restructuring costs of 0.3 percent of GDP as expenditure.

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

[5] Including central government debt owed to the Central Bank of Liberia.

Table 2. Liberia: Balance of Payments, 2019–27
(Millions of U.S. dollars, unless otherwise indicated)

	2019	2020	2021		2022		2023		2024	2025	2026	2027
	Est.	Est.	3rd Review	Est.	3rd Review	Proj.	3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance	-395	-390	-430	-461	-399	-417	-391	-459	-416	-401	-420	-422
Exports, f.o.b.	539	608	793	877	862	958	911	977	1,056	1,129	1,196	1,248
of which: Iron ore	235	289	364	346	411	338	454	331	360	378	398	422
of which: Gold	164	194	278	340	292	411	291	421	457	493	510	516
Imports, f.o.b.	-934	-998	-1,223	-1,338	-1,261	-1,375	-1,302	-1,436	-1,472	-1,530	-1,616	-1,671
Services (net)	-410	-409	-407	-405	-425	-361	-441	-349	-386	-409	-424	-476
Primary income (net)	-106	-154	-258	-212	-301	-214	-341	-210	-232	-256	-277	-275
of which: Investment income (net)	-81	-130	-233	-187	-275	-188	-314	-183	-203	-226	-245	-242
Secondary income	305	455	480	458	428	361	408	370	378	376	386	390
of which: Remittances (net)	119	212	263	264	214	218	219	225	221	217	223	224
Current account balance, including grants	-605	-498	-615	-620	-698	-631	-764	-648	-656	-690	-736	-784
Current account balance, excluding grants	-771	-721	-812	-794	-891	-753	-932	-772	-791	-828	-876	-926
Capital and financial account (net)	591	463	960	939	656	603	804	680	723	763	825	863
Capital account[1]	250	242	244	208	241	183	237	186	190	193	197	200
Financial account	341	221	716	731	415	420	566	494	533	570	628	664
Foreign direct investment (net)	297	222	251	255	361	292	423	354	407	439	470	497
Portfolio investment (net)	0	0	0	0	0	0	0	0	0	0	0	0
Other investment (net)	45	-1	465	476	54	127	143	140	126	131	158	166
Official financing: medium and long term (net)	120	104	432	419	64	203	71	156	185	201	234	266
Private financing (net)[2]	-75	-106	33	57	-10	-76	72	-16	-59	-70	-76	-100
Overall balance	-14	-34	345	318	-42	-28	39	33	67	73	89	80
Financing	14	34	-345	-318	42	28	-39	-33	-67	-73	-89	-80
Change in gross official reserves (increase -)[3]	5	-66	-357	-342	-4	9	-50	-59	-33	-44	-52	-46
Net use of IMF credit and loans	9	67	-9	-8	34	19	11	27	-34	-28	-36	-34
Exceptional financing (CCRT)	0	33	21	32	11	0	0	0	0	0	0	0
Memorandum items:												
Current account balance (percent of GDP)												
Including grants	-19.6	-16.4	-17.9	-17.7	-18.9	-16.0	-19.9	-15.3	-15.1	-14.9	-14.8	-14.6
Excluding grants	-25.0	-23.7	-23.7	-22.6	-24.1	-19.1	-24.2	-18.2	-18.2	-17.9	-17.6	-17.3
Trade balance (percent of GDP)	-12.8	-12.9	-12.6	-13.1	-10.8	-10.6	-10.2	-10.8	-9.6	-8.6	-8.5	-7.9
Donor transfers (net, percent of GDP)	5.4	7.3	5.7	5.0	5.2	3.1	4.4	2.9	3.1	3.0	2.8	2.7
Foreign direct investment (net, percent of GDP)	9.6	7.3	7.3	7.3	9.8	7.4	11.0	8.4	9.4	9.5	9.5	9.3
Public sector external debt (MT and LT percent of GDP)	34.9	41.1	38.3	37.2	38.1	38.8	38.7	40.3	42.9	43.9	44.9	46.0
Gross official reserves	292	358	716	700	719	691	769	750	784	828	881	927
of which: Undrawn SDR allocation of August 2021	0	0	353	353	273	273	253	253	253	253	253	253
Gross official reserves (months of next year's imports)	2.2	2.2	4.4	4.2	4.2	4.0	4.3	4.2	4.2	4.2	4.3	4.2

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

[1] The total amount of external project grants and loans has been revised down from 2021 onwards to reflect the revised authorities' database prepared together with donors.

[2] "Private financing" reflects current transfers that are not captured by the official statistics and errors and omissions.

[3] Includes SDR holdings.

Table 3a. Liberia: Fiscal Operations of the Budgetary Central Government (Including Off-Budget Transactions), 2019–27[1]

(Millions of U.S. dollars)

	CY2019	CY2020	CY2021		CY2022		CY2023		CY2024	CY2025	CY2026	CY2027
	Est.	Est	3rd Review	Est.	3rd Review	Proj.	3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	844	950	1,051	957	1,069	952	1,076	1,020	1,043	1,122	1,227	1,331
of which: Revenue, excl. grants	427	484	610	576	635	647	670	682	709	775	851	919
Taxes	349	394	465	483	492	493	529	546	565	619	681	748
Income, profits, and capital gains taxes	111	150	183	196	197	200	206	222	229	250	272	299
Goods and services tax	66	69	77	68	74	70	90	77	80	87	95	105
International trade tax	159	165	195	209	211	214	223	237	245	271	302	332
Other taxes[2]	14	9	11	9	10	10	10	11	11	12	13	12
Other revenue	78	90	145	93	143	154	141	136	144	155	170	171
Grants[3]	416	466	441	382	434	305	405	338	334	348	377	412
Expense	661	745	774	769	785	822	750	811	838	904	986	1,064
Compensation of employees	272	332	305	298	297	293	297	296	304	321	344	371
Use of goods and services	297	341	362	360	375	359	327	355	370	403	441	478
Interest	33	39	30	31	31	38	29	44	45	43	46	47
Subsidies and grants[4]	56	29	72	75	71	116	79	99	97	106	115	125
Social benefits	3	4	6	6	11	16	18	17	22	31	40	43
Net operating balance	183	205	277	188	284	130	326	209	205	218	242	268
Gross investment in nonfinancial assets	331	321	359	273	433	326	405	356	364	393	429	472
Overall balance = Net lending/borrowing	-148	-117	-82	-85	-149	-196	-79	-147	-159	-175	-187	-204
excl. grants	-565	-582	-523	-466	-583	-501	-484	-485	-494	-523	-564	-617
Primary balance	-116	-78	-52	-54	-118	-158	-51	-104	-114	-132	-141	-157
excl. grants	-532	-543	-493	-436	-552	-463	-456	-441	-449	-479	-518	-569
Financing	-148	-127	-82	-69	-149	-196	-79	-147	-159	-175	-187	-204
Transactions in financial assets	14	37	-35	-29	4	0	0	0	0	0	0	0
Deposits	14	37	-35	-29	4	0	0	0	0	0	0	0
Loans (policy lending)	0	0	0	0	0	0	0	0	0	0	0	0
Transaction in liabilities	162	164	47	40	152	196	79	147	159	175	187	204
Loans	111	207	119	93	212	244	103	166	145	181	181	199
External (net)	110	206	123	111	123	164	86	148	127	168	181	201
Disbursements[3]	118	221	144	122	153	181	131	173	182	219	220	239
Amortization (-)	-8	-15	-21	-11	-30	-17	-45	-25	-54	-51	-39	-38
Domestic (net)	0	1	-4	-18	89	80	18	18	18	13	0	-2
of which: CBL	8	4	0	-5	93	80	22	22	22	17	4	2
Disbursements	8	4	0	0	93	80	22	22	22	17	4	2
Amortization (-)	0	0	0	-5	0	0	0	0	0	0	0	0
Debt securities	3	-4	-46	-24	-47	-36	-9	0	29	9	22	21
Bank[4]	3	-4	-46	-12	-47	-27	-9	-4	11	7	12	4
Nonbank	0	0	0	-12	0	-9	0	4	18	2	10	17
Accounts payable	48	-38	-26	-29	-13	-12	-15	-18	-15	-15	-15	-15
Adjustments and discrepancies	0	10	0	-16	0	0	0	0	0	0	0	0
Memorandum items:												
Total public debt	1,495	1,781	1,923	1,866	2,182	2,149	2,284	2,343	2,468	2,614	2,764	2,934
External	1,075	1,247	1,311	1,305	1,409	1,527	1,491	1,709	1,860	2,033	2,230	2,463
Domestic[5]	420	535	612	561	773	623	793	634	608	581	534	471
Nominal GDP	3,080	3,037	3,426	3,509	3,698	3,938	3,847	4,236	4,339	4,636	4,968	5,354

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

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

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

[3] The total amount of external project grants and loans has been revised down from 2021 onwards to reflect the revised authorities' database prepared together with donors.

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

[5] Including central government debt owed to the Central Bank of Liberia.

Table 3b. Liberia: Fiscal Operations of the Budgetary Central Government (Including Off-Budget Transactions), 2019–27[1]

(Percent of GDP, unless otherwise indicated)

	CY2019	CY2020	CY2021		CY2022		CY2023		CY2024	CY2025	CY2026	CY2027
	Est.	Est.	3rd Review	Est.	3rd Review	Proj.	3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	27.4	31.3	30.7	27.3	28.9	24.2	28.0	24.1	24.0	24.2	24.7	24.9
of which: Revenue, excl. grants	13.9	15.9	17.8	16.4	17.2	16.4	17.4	16.1	16.3	16.7	17.1	17.2
Taxes	11.3	13.0	13.6	13.8	13.3	12.5	13.7	12.9	13.0	13.4	13.7	14.0
Income, profits, and capital gains taxes	3.6	4.9	5.3	5.6	5.3	5.1	5.4	5.2	5.3	5.4	5.5	5.6
Goods and services tax	2.1	2.3	2.2	1.9	2.0	1.8	2.3	1.8	1.8	1.9	1.9	2.0
International trade tax	5.2	5.4	5.7	6.0	5.7	5.4	5.8	5.6	5.6	5.8	6.1	6.2
Other taxes[2]	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.3	0.3	0.3	0.2
Other revenue	2.5	3.0	4.2	2.6	3.9	3.9	3.7	3.2	3.3	3.4	3.4	3.2
Grants[3]	13.5	15.3	12.9	10.9	11.7	7.8	10.5	8.0	7.7	7.5	7.6	7.7
Expense	21.4	24.5	22.6	21.9	21.2	20.9	19.5	19.2	19.3	19.5	19.8	19.9
Compensation of employees	8.8	10.9	8.9	8.5	8.0	7.4	7.7	7.0	7.0	6.9	6.9	6.9
Use of goods and services	9.6	11.2	10.6	10.2	10.1	9.1	8.5	8.4	8.5	8.7	8.9	8.9
Interest	1.1	1.3	0.9	0.9	0.8	1.0	0.7	1.0	1.0	0.9	0.9	0.9
Subsidies and grants[4]	1.8	1.0	2.1	2.1	1.9	2.9	2.0	2.3	2.2	2.3	2.3	2.3
Social benefits	0.1	0.1	0.2	0.2	0.3	0.4	0.5	0.4	0.5	0.7	0.8	0.8
Net operating balance	5.9	6.7	8.1	5.4	7.7	3.3	8.5	4.9	4.7	4.7	4.9	5.0
Gross investment in nonfinancial assets	10.8	10.6	10.5	7.8	11.7	8.3	10.5	8.4	8.4	8.5	8.6	8.8
Overall balance = Net lending/borrowing	-4.8	-3.8	-2.4	-2.4	-4.0	-5.0	-2.1	-3.5	-3.7	-3.8	-3.8	-3.8
excl. grants	-18.3	-19.2	-15.3	-13.3	-15.8	-12.7	-12.6	-11.5	-11.4	-11.3	-11.3	-11.5
Primary balance	-3.8	-2.6	-1.5	-1.5	-3.2	-4.0	-1.3	-2.4	-2.6	-2.8	-2.8	-2.9
excl. grants	-17.3	-17.9	-14.4	-12.4	-14.9	-11.8	-11.8	-10.4	-10.3	-10.3	-10.4	-10.6
Financing	-4.8	-4.2	-2.4	-2.0	-4.0	-5.0	-2.1	-3.5	-3.7	-3.8	-3.8	-3.8
Transactions in financial assets	0.4	1.2	-1.0	-0.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits	0.4	1.2	-1.0	-0.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans (policy lending)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transaction in liabilities	5.3	5.4	1.4	1.1	4.1	5.0	2.1	3.5	3.7	3.8	3.8	3.8
Loans	3.6	6.8	3.5	2.7	5.7	6.2	2.7	3.9	3.3	3.9	3.6	3.7
External (net)	3.6	6.8	3.6	3.2	3.3	4.2	2.2	3.5	2.9	3.6	3.6	3.7
Disbursements[3]	3.8	7.3	4.2	3.5	4.1	4.6	3.4	4.1	4.2	4.7	4.4	4.5
Amortization (-)	-0.3	-0.5	-0.6	-0.3	-0.8	-0.4	-1.2	-0.6	-1.3	-1.1	-0.8	-0.7
Domestic (net)	0.0	0.0	-0.1	-0.5	2.4	2.0	0.5	0.4	0.4	0.3	0.0	0.0
of which: CBL	0.3	0.1	0.0	-0.1	2.5	2.0	0.6	0.5	0.5	0.4	0.1	0.0
Disbursements	0.3	0.1	0.0	0.0	2.5	2.0	0.6	0.5	0.5	0.4	0.1	0.0
Amortization (-)	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.1	-0.1	-1.3	-0.7	-1.3	-0.9	-0.2	0.0	0.7	0.2	0.4	0.4
Bank[4]	0.1	-0.1	-1.3	-0.3	-1.3	-0.7	-0.2	-0.1	0.3	0.1	0.2	0.1
Nonbank	0.0	0.0	0.0	-0.3	0.0	-0.2	0.0	0.1	0.4	0.0	0.2	0.3
Accounts payable	1.6	-1.3	-0.8	-0.8	-0.4	-0.3	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3
Adjustments and discrepancies	0.0	0.3	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Total public debt	48.5	58.7	56.1	53.2	59.0	54.6	59.4	55.3	56.9	56.4	55.6	54.8
External	34.9	41.1	38.3	37.2	38.1	38.8	38.7	40.3	42.9	43.9	44.9	46.0
Domestic[5]	13.6	17.6	17.9	16.0	20.9	15.8	20.6	15.0	14.0	12.5	10.7	8.8
Nominal GDP	3,080	3,037	3,426	3,509	3,698	3,938	3,847	4,236	4,339	4,636	4,968	5,354

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

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

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

[3] The total amount of external project grants and loans has been revised down from 2021 onwards to reflect the revised authorities' database prepared together with donors.

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

[5] Including central government debt owed to the Central Bank of Liberia.

Table 3c. Liberia: Fiscal Operations of the Budgetary Central Government, 2019–27[1]

(Millions of U.S. dollars)

	CY2019	CY2020	CY2021		CY2022		CY2023		CY2024	CY2025	CY2026	CY2027
	Est.	Est.	3rd Review	Est.	3rd Review	Proj.	3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	427	546	645	611	667	647	680	682	717	784	860	928
of which: Revenue, excl. grants	427	484	610	576	635	647	670	682	709	775	851	919
Taxes	349	394	465	483	492	493	529	546	565	619	681	748
Income, profits, and capital gains taxes	111	150	183	196	197	200	206	222	229	250	272	299
Goods and services tax	66	69	77	68	74	70	90	77	80	87	95	105
International trade tax	159	165	195	209	211	214	223	237	245	271	302	332
Other taxes[2]	14	9	11	9	10	10	10	11	11	12	13	12
Other revenue	78	90	145	93	143	154	141	136	144	155	170	171
Grants	0	62	34	35	33	0	10	0	8	9	9	9
Expense	447	549	583	601	597	669	595	657	675	707	765	823
Compensation of employees	272	332	305	298	297	293	297	296	304	321	344	371
Use of goods and services	83	144	171	191	187	206	173	202	207	206	220	237
Interest	33	39	30	31	31	38	29	44	45	43	46	47
Subsidies and grants[3]	56	29	72	75	71	116	79	99	97	106	115	125
Social benefits	3	4	6	6	11	16	18	17	22	31	40	43
Net operating balance	-19	-3	62	10	70	-22	85	25	43	76	95	105
Gross investment in nonfinancial assets	10	1	32	5	98	72	43	39	60	84	103	111
lending/borrowing	-30	-4	29	5	-28	-94	42	-14	-17	-8	-8	-6
excl. grants	-30	-66	-5	-30	-60	-94	32	-14	-26	-16	-16	-15
Primary balance	3	35	59	36	3	-56	70	30	28	36	38	42
excl. grants	3	-27	25	0	-29	-56	60	30	20	27	29	33
Financing	-30	-14	29	8	-28	-94	42	-14	-17	-8	-8	-6
Transactions in financial assets	14	37	-35	-29	4	0	0	0	0	0	0	0
Deposits	14	37	-35	-29	4	0	0	0	0	0	0	0
Loans (policy lending)	0	0	0	0	0	0	0	0	0	0	0	0
Transaction in liabilities	44	51	-64	-37	31	94	-42	14	17	8	8	6
Loans	-8	94	8	4	92	143	-17	33	3	14	1	0
External (net)	-8	93	12	22	2	63	-35	15	-14	0	1	2
Disbursements	0	108	33	33	33	80	10	40	40	52	40	40
Amortization (-)	-8	-15	-21	-11	-30	-17	-45	-25	-54	-51	-39	-38
Domestic (net)	0	1	-4	-18	89	80	18	18	18	13	0	-2
of which: CBL	8	4	0	-5	93	80	22	22	22	17	4	2
Disbursements	8	4	0	0	93	80	22	22	22	17	4	2
Amortization (-)	0	0	0	-5	0	0	0	0	0	0	0	0
Debt securities	3	-4	-46	-12	-47	-36	-9	0	29	9	22	21
Bank	3	-4	-46	-12	-47	-27	-9	-4	11	7	12	4
Nonbank	0	0	0	0	0	-9	0	4	18	2	10	17
Accounts payable	48	-38	-26	-29	-13	-12	-15	-18	-15	-15	-15	-15
Adjustments and discrepancies	0	10	0	-3	0	0	0	0	0	0	0	0
Memorandum items:												
Total public debt	1,495	1,781	1,923	1,866	2,182	2,149	2,284	2,343	2,468	2,614	2,764	2,934
External	1,075	1,247	1,311	1,305	1,409	1,527	1,491	1,709	1,860	2,033	2,230	2,463
Domestic[4]	420	535	612	561	773	623	793	634	608	581	534	471
Nominal GDP	3,080	3,037	3,426	3,509	3,698	3,938	3,847	4,236	4,339	4,636	4,968	5,354

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

1 Table is shown on a commitment basis and refers to the budgetary central government operations. It does not include projects financed by development partners. Prior to CY 2022, the figures are average of two fiscal year which used to run from July 1 to June 30.

2 Including property tax and social contribution by foreign concessions.

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

4 Including central government debt owed to the Central Bank of Liberia.

Table 3d. Liberia: Fiscal Operations of the Budgetary Central Government, 2019–27[1]

(Percent of GDP, unless otherwise indicated)

	CY2019	CY2020	CY2021		CY2022		CY2023		CY2024	CY2025	CY2026	CY2027
	Est.	Est.	3rd Review	Est.	3rd Review	Proj.	3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	13.9	18.0	18.8	17.4	18.0	16.4	17.7	16.1	16.5	16.9	17.3	17.3
of which: Revenue, excl. grants	13.9	15.9	17.8	16.4	17.2	16.4	17.4	16.1	16.3	16.7	17.1	17.2
Taxes	11.3	13.0	13.6	13.8	13.3	12.5	13.7	12.9	13.0	13.4	13.7	14.0
Income, profits, and capital gains taxes	3.6	4.9	5.3	5.6	5.3	5.1	5.4	5.2	5.3	5.4	5.5	5.6
Goods and services tax	2.1	2.3	2.2	1.9	2.0	1.8	2.3	1.8	1.8	1.9	1.9	2.0
International trade tax	5.2	5.4	5.7	6.0	5.7	5.4	5.8	5.6	5.6	5.8	6.1	6.2
Other taxes[2]	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.3	0.3	0.3	0.2
Other revenue	2.5	3.0	4.2	2.6	3.9	3.9	3.7	3.2	3.3	3.4	3.4	3.2
Grants	0.0	2.0	1.0	1.0	0.9	0.0	0.3	0.0	0.2	0.2	0.2	0.2
Expense	14.5	18.1	17.0	17.1	16.1	17.0	15.5	15.5	15.5	15.3	15.4	15.4
Compensation of employees	8.8	10.9	8.9	8.5	8.0	7.4	7.7	7.0	7.0	6.9	6.9	6.9
Use of goods and services	2.7	4.8	5.0	5.4	5.1	5.2	4.5	4.8	4.8	4.4	4.4	4.4
Interest	1.1	1.3	0.9	0.9	0.8	1.0	0.7	1.0	1.0	0.9	0.9	0.9
Subsidies and grants[3]	1.8	1.0	2.1	2.1	1.9	2.9	2.0	2.3	2.2	2.3	2.3	2.3
Social benefits	0.1	0.1	0.2	0.2	0.3	0.4	0.5	0.4	0.5	0.7	0.8	0.8
Net operating balance	-0.6	-0.1	1.8	0.3	1.9	-0.6	2.2	0.6	1.0	1.6	1.9	2.0
Gross investment in nonfinancial assets	0.3	0.0	0.9	0.2	2.7	1.8	1.1	0.9	1.4	1.8	2.1	2.1
Overall balance = Net lending/borrowing	-1.0	-0.1	0.9	0.1	-0.8	-2.4	1.1	-0.3	-0.4	-0.2	-0.2	-0.1
excl. grants	-1.0	-2.2	-0.1	-0.9	-1.6	-2.4	0.8	-0.3	-0.6	-0.4	-0.3	-0.3
Primary balance	0.1	1.2	1.7	1.0	0.1	-1.4	1.8	0.7	0.6	0.8	0.8	0.8
excl. grants	0.1	-0.9	0.7	0.0	-0.8	-1.4	1.6	0.7	0.5	0.6	0.6	0.6
Financing	-1.0	-0.5	0.9	0.2	-0.8	-2.4	1.1	-0.3	-0.4	-0.2	-0.2	-0.1
Transactions in financial assets	0.4	1.2	-1.0	-0.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits	0.4	1.2	-1.0	-0.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans (policy lending)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transaction in liabilities	1.4	1.7	-1.9	-1.1	0.8	2.4	-1.1	0.3	0.4	0.2	0.2	0.1
Loans	-0.3	3.1	0.2	0.1	2.5	3.6	-0.5	0.8	0.1	0.3	0.0	0.0
External (net)	-0.3	3.1	0.3	0.6	0.1	1.6	-0.9	0.4	-0.3	0.0	0.0	0.0
Disbursements	0.0	3.6	0.9	0.9	0.9	2.0	0.3	0.9	0.9	1.1	0.8	0.7
Amortization (-)	-0.3	-0.5	-0.6	-0.3	-0.8	-0.4	-1.2	-0.6	-1.3	-1.1	-0.8	-0.7
Domestic (net)	0.0	0.0	-0.1	-0.5	2.4	2.0	0.5	0.4	0.4	0.3	0.0	0.0
of which: CBL	0.3	0.1	0.0	-0.1	2.5	2.0	0.6	0.5	0.5	0.4	0.1	0.0
Disbursements	0.3	0.1	0.0	0.0	2.5	2.0	0.6	0.5	0.5	0.4	0.1	0.0
Amortization (-)	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.1	-0.1	-1.3	-0.3	-1.3	-0.9	-0.2	0.0	0.7	0.2	0.4	0.4
Bank	0.1	-0.1	-1.3	-0.3	-1.3	-0.7	-0.2	-0.1	0.3	0.1	0.2	0.1
Nonbank	0.0	0.0	0.0	0.0	0.0	-0.2	0.0	0.1	0.4	0.0	0.2	0.3
Accounts payable	1.6	-1.3	-0.8	-0.8	-0.4	-0.3	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3
Adjustments and discrepancies	0.0	0.3	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Total public debt	48.5	58.7	56.1	53.2	59.0	54.6	59.4	55.3	56.9	56.4	55.6	54.8
External	34.9	41.1	38.3	37.2	38.1	38.8	38.7	40.3	42.9	43.9	44.9	46.0
Domestic[4]	13.6	17.6	17.9	16.0	20.9	15.8	20.6	15.0	14.0	12.5	10.7	8.8
Nominal GDP	3,080	3,037	3,426	3,509	3,698	3,938	3,847	4,236	4,339	4,636	4,968	5,354

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

1 Table is shown on a commitment basis and refers to the budgetary central government operations. It does not include projects financed by development partners. Prior to CY 2022, the figures are average of two fiscal year which used to run from July 1 to June 30.

2 Including property tax and social contribution by foreign concessions.

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

4 Including central government debt owed to the Central Bank of Liberia.

Table 4. Liberia: Monetary Survey, 2019–27[1]

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

	2019	2020	2021		2022		2023		2024	2025	2026	2027
	Est.	Est.	3rd Review	Est.	3rd Review	Proj.	3rd Review	Proj.	Proj.	Proj.	Proj.	Proj.
(Central Bank Survey)												
Net foreign assets	-38	-41	-10	-7	-48	-44	-10	-12	55	127	216	295
Foreign assets	369	443	815	802	823	798	873	857	890	935	987	1,033
of which: Gross reserves	349	438	811	796	819	791	869	850	884	928	981	1,027
Foreign liabilities	407	483	821	809	867	835	879	862	829	801	765	732
of which: Short-term foreign liabilities	225	294	280	278	326	304	339	331	298	270	234	201
Net domestic assets	254	302	274	315	318	356	297	346	303	255	194	147
Net domestic credit	481	660	502	541	560	616	559	634	629	627	625	620
Net claims on government	424	609	459	500	527	580	527	600	600	600	600	600
Claims on other public sector	0	0	0	0	0	0	0	0	0	0	0	0
Claims on private sector	7	7	7	8	7	8	7	8	8	8	8	8
Claims on commercial banks (net)	50	43	35	33	26	28	25	25	21	19	16	12
Capital account	-121	-189	-125	-107	-125	-108	-125	-108	-108	-108	-108	-108
Other items (net)	-107	-168	-104	-119	-117	-153	-136	-180	-219	-265	-323	-366
Monetary base (M0)	216	261	263	308	270	312	287	334	358	382	410	441
Monetary base (LD component, billions of LD)	28	29	32	31	37	37	42	44	49	54	60	67
(Depository Corporation Survey)												
Net foreign assets	67	74	117	170	79	133	117	165	232	304	392	471
Net domestic assets	572	701	725	693	793	842	813	888	859	862	857	875
Net claims on government	465	641	506	550	539	608	539	619	610	601	591	591
Claims on public enterprises	0	0	0	0	0	0	0	0	0	0	0	0
Claims on private sector	471	497	560	519	613	585	661	642	694	758	830	911
Claims on nonbank financial institutions	27	29	35	7	26	28	25	25	21	19	16	12
Other items (Net)	-110	-97	-74	-58	-81	-103	-109	-127	-181	-232	-297	-343
Broad money (M2)	644	775	842	863	873	975	930	1,053	1,091	1,166	1,249	1,346
LD component	206	253	287	275	306	325	339	372	407	458	516	570
LD currency in circulation	109	138	152	153	160	145	175	145	156	168	180	193
LD denominated deposits	97	116	135	122	146	180	164	227	251	291	336	377
U.S. dollar component (deposits only)	438	522	555	588	566	650	591	681	684	708	733	776
Memorandum items:												
Gross official reserves	292	358	716	700	719	691	769	750	784	828	881	927
Net international reserves	27	0	392	387	362	352	401	384	451	523	611	690
Broad money (annual change) in U.S. dollars	0.5	20.4	8.6	11.3	3.6	13.0	6.5	8.0	3.6	6.9	7.2	7.8
Broad money (annual change) in LD	19.9	5.2	18.3	-1.5	19.4	37.6	10.4	21.2	6.6	10.0	10.3	11.0
LD contribution to broad money growth (in LD)	6.2	2.4	7.7	-1.3	7.8	14.0	5.1	9.5	4.4	5.9	6.3	5.7
U.S. dollar contribution to broad money growth (in LD)	13.7	2.8	10.7	-0.2	11.6	23.6	5.2	11.8	2.1	4.1	4.1	5.3
Monetary base (LD component, annual change)	9.1	3.9	9.5	4.4	15.7	20.8	12.1	18.0	11.3	11.3	10.9	11.0
Net credit to government (annual change)	28.5	38.0	-21.0	-14.3	6.4	10.7	0.0	1.8	-1.5	-1.5	-1.5	0.0
Credit to private sector (annual change)	-11.3	5.5	12.7	4.4	9.4	12.8	7.9	9.7	8.0	9.3	9.5	9.7
Velocity (GDP-to-M2)	4.8	3.9	4.1	4.1	4.2	4.0	4.1	4.0	4.0	4.0	4.0	4.0
Money multiplier (M2/M0)	3.0	3.0	3.2	2.8	3.2	3.1	3.2	3.1	3.1	3.1	3.1	3.1

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

Table 5. Liberia: Financial Soundness Indicators, 2016–21
(Percent)

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Core FSIs for Deposit Takers									
Regulatory Capital to Risk-Weighted Assets[1]	29.2	35.0	23.8	22.2	30.2	28.8	27.5	23.2	23.6
Regulatory Tier 1 Capital to Risk-Weighted Assets[1]	24.6	31.6	22.4	20.6	26.7	25.4	24.0	19.5	20.7
Non-performing Loans Net of Provisions to Capital	3.0	12.8	15.3	17.9	6.8	14.1	16.4	24.9	15.9
Non-performing Loans to Total Gross Loans	14.6	14.8	14.0	17.5	21.6	27.4	23.0	22.0	22.9
Sectoral Distribution of Loans to Total Loans									
Residents	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Deposit-takers	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	5.5	0.0	0.0	4.6	3.7	2.2	0.2	0.4	0.3
General government	4.3	0.0	1.1	2.0	2.0	2.3	2.4	2.0	4.3
Nonfinancial corporations	50.7	63.6	58.1	77.6	78.4	80.9	83.7	76.7	73.4
Other domestic sectors	39.5	36.4	40.7	15.8	15.9	14.6	13.7	20.9	21.9
Nonresidents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Return on Assets	0.5	1.8	1.4	2.6	1.1	1.5	2.1	2.5	3.1
Return on Equity	2.5	10.2	7.7	14.7	6.6	8.6	12.0	14.8	17.6
Interest Margin to Gross Income	53.3	52.1	48.9	52.8	52.9	53.8	52.3	53.5	53.8
Non-interest Expenses to Gross Income	81.2	78.2	73.0	74.2	77.2	62.7	59.5	61.7	62.3
Liquid Assets to Total Assets (Liquid Asset Ratio)	70.7	29.3	32.8	27.3	28.7	37.0	34.5	33.9	32.7
Liquid Assets to Short Term Liabilities	97.8	43.9	47.6	42.3	41.7	54.0	49.8	47.4	49.9
Net Open Position in Foreign Exchange to Capital	13.7	1.7	27.2	65.6	42.3	49.9	52.4	79.5	62.4

Sources: Liberian authorities; and IMF staff estimates.

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

Table 6. Liberia: External Financing Requirement and Source, 2019–27
(Millions of U.S. dollars)

	Est.		Projections						
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total Financing Requirement	-767	-787	-1,136	-744	-831	-824	-872	-928	-972
Current account (excluding donor grants)	-771	-721	-794	-753	-772	-791	-828	-876	-926
Gross Reserves Accumulation (- increase)	5	-66	-342	9	-59	-33	-44	-52	-46
Total Sources	767	787	1,136	744	831	824	872	928	972
Expected Disbursements (official)	286	328	593	325	280	319	339	374	408
Grants	167	223	174	122	124	135	138	140	142
Official financing: medium and long term (net)	120	104	419	203	156	185	201	234	266
Capital transfer	250	242	208	183	186	190	193	197	200
Foreign direct investment	297	222	255	292	354	407	439	470	497
Private financing (net)	-75	-106	57	-76	-16	-59	-70	-76	-100
IMF (net, existing credit)	9	67	-8	19	27	-34	-28	-36	-34
Financing gap	0	0	0	0	0	0	0	0	0
Provisional IMF	0	0	0	0	0	0	0	0	0
Gross official reserves	292	358	700	691	750	784	828	881	927
Months of imports	2.2	2.2	4.2	4.0	4.2	4.2	4.2	4.3	4.2

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

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

Availability Date [1]	Amount	% of Quota	Conditions Necessary for Disbursement [2]
December 11, 2019	17.0	6.58	Executive Board Approval of four-year ECF arrangement.
December 21, 2020	34.0	13.16	Executive Board Approval of the first and second reviews of the ECF arrangement.
November 24, 2021	17.0	6.58	Observance of performance criteria for December 31, 2020, and completion of third review.
December 1, 2021	17.0	6.58	Observance of performance criteria for June 30, 2021, and completion of fourth review.
December 1, 2022	23.3	9.02	Observance of performance criteria for September 30, 2022, and completion of fifth review.
April 1, 2023	23.3	9.02	Observance of performance criteria for December 31, 2022, and completion of sixth review.
September 15, 2023	23.4	9.06	Observance of performance criteria for June 30, 2023, and completion of seventh review.
Total for the ECF arrangement	**155.0**	**60.0**	

Source: IMF staff.

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

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

Table 8. Liberia: Indicators of Capacity to Repay the IMF, 2021–31

(As of June 2022; SDR millions, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
						Projections					
Fund obligations based on existing credit											
(in millions of SDRs)											
Repayment of principal	23.0	26.3	27.3	24.4	20.2	25.9	23.8	20.8	20.8	13.8	3.4
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit											
(in millions of SDRs)											
Repayment of principal	23.0	26.3	27.3	24.4	20.2	25.9	23.8	31.2	38.2	31.2	20.8
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit											
In millions of SDRs	23.0	26.3	27.3	24.4	20.2	25.9	23.8	31.2	38.2	31.2	20.8
In millions of US$	31.9	36.6	38.0	33.9	28.1	36.1	33.1	43.4	53.2	43.4	28.9
In percent of exports of goods and services	2.8	3.0	3.1	2.5	2.0	2.4	2.1	2.6	3.1	2.4	1.5
In percent of debt service 1/	59.1	52.6	49.8	40.8	36.7	41.4	37.9	44.5	45.8	39.1	27.9
In percent of GDP	0.9	0.9	0.9	0.8	0.6	0.7	0.6	0.7	0.8	0.6	0.4
In percent of Gross International Reserves	4.6	5.3	5.1	4.3	3.4	4.1	3.6	4.4	5.2	4.0	2.5
In percent of quota	8.9	10.2	10.6	9.4	7.8	10.0	9.2	12.1	14.8	12.1	8.0
Outstanding Fund credit											
In millions of SDRs	198.8	220.8	240.2	215.8	195.6	169.7	145.9	114.7	76.4	45.2	24.4
In millions of US$	276.5	307.1	334.0	300.2	272.0	236.0	202.9	159.5	106.3	62.9	33.9
In percent of exports of goods and services	24.7	25.4	26.8	22.3	19.0	15.6	12.8	9.6	6.1	3.5	1.8
In percent of external public debt service 1/	511.9	441.7	437.1	361.3	355.1	271.0	232.6	163.3	91.5	56.7	32.8
In percent of GDP	7.9	7.8	7.9	6.9	5.9	4.8	3.8	2.7	1.7	0.9	0.5
In percent of Gross International Reserves	39.5	44.4	44.5	38.3	32.8	26.8	21.9	16.3	10.3	5.8	3.0
In percent of quota	77.0	85.4	92.9	83.5	75.7	65.7	56.5	44.4	29.6	17.5	9.4
Net use of Fund credit (in millions of SDRs)	-6.0	14.0	19.4	-24.4	-20.2	-25.9	-23.8	-31.2	-38.2	-31.2	-20.8
Disbursements	17.0	40.3	46.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	23.0	26.3	27.3	24.4	20.2	25.9	23.8	31.2	38.2	31.2	20.8
Memorandum items:											
Exports of goods and services (in millions of US$)	1,121	1,210	1,246	1,347	1,435	1,516	1,582	1,663	1,729	1,807	1,896
Debt service (in millions of US$)	54.0	69.5	76.4	83.1	76.6	87.1	87.2	97.7	116.2	111.0	103.7
Nominal GDP (in millions of US$)	3,509	3,938	4,236	4,339	4,636	4,968	5,354	5,815	6,267	6,700	7,157
Gross International Reserves (in millions of US$)	700	691	750	784	828	881	927	978	1,029	1,091	1,141
Quota (millions of SDRs)	258.4	258.4	258.4	258.4	258.4	258.4	258.4	258.4	258.4	258.4	258.4

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

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

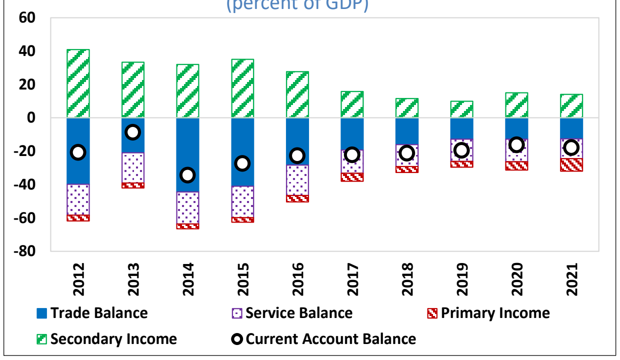
Annex I. External Sector Assessment

In 2021, Liberia's external position was substantially weaker than the level implied by fundamentals and desirable policies. While the current account (CA) deficit is large, it remains for now comfortably financed by non-debt-creating project grant and foreign direct investment (FDI) flows, as well as inexpensive donor loans. Addressing Liberia's external sector imbalances in the longer run requires significant efforts to develop a diversified and competitive exportables sector, with exchange rate adjustment currently playing a secondary role in the face of Liberia's dual currency system and its high degree of dollarization. Thanks to the SDR allocation, foreign exchange reserves surpassed adequate levels in 2021 for the first time after many years of deficiencies.

Current Account

1. After some narrowing, Liberia's CA deficit has stabilized at high levels of around 18 percent of GDP in recent years.[1] During 2014–2019, the CA deficit declined significantly as lower imports of goods and services overcompensated the drop in secondary income with the phasing out of the large-scale UN peacekeeping operation in Liberia and as gold exports soared. During the pandemic in 2020, exports of goods improved with the increase in prices of iron ore and gold and net remittances surged to a peak of 7.0 percent of GDP due to a drop in outflow remittances, leading to some further improvement in the CA balance. In 2021, these improvements were largely reversed by strong imports of goods and higher investment income payments. Figure 1 shows the evolution of the underlying components of the CA in the past decade.

Figure 1. Current Account, 2012-21
(percent of GDP)



2. The EBA-Lite CA model suggests that the external sector position is substantially weaker than what is consistent with medium-term fundamentals and desirable policies.[2] Based on the CA model, the cyclically adjusted CA deficit stood at 18.9 percent of GDP in 2021 compared to a multilaterally consistent cyclically adjusted CA norm of -4.6 percent of GDP, implying a large gap of -14.4 percent of GDP. The positive policy gap was mainly driven by tighter fiscal policy relative to the rest of the world and a more sizable increase in the international reserves to GDP ratio in the wake of the general SDR allocation. The sizable negative residual potentially reflects structural impediments and country-specific factors that are not captured by the model.

[1]The CA deficit might be notably smaller than currently measured. The CBL has recently obtained access to data for inflows of remittances through Mobile Wallets and is compiling and analyzing the data. Their initial assessment suggests that the inflows of remittances could be sizably larger than currently estimated.

[2]Given issues with data quality in Liberia, there is substantial uncertainty around the model's point estimates.

Table 1. Liberia: Model Estimates for 2021 (Percent of GDP)		
	CA model	**REER model**
CA-Actual	**-17.7**	
Cyclical contributions (from model) (-)	0.4	
COVID-19 adjustor (+) 1/	-0.9	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-18.9**	
CA Norm (from model) 2/	**-4.6**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-4.6**	
CA Gap	**-14.4**	**0.0**
o/w Relative policy gap	5.3	
Elasticity	-0.28	
REER Gap (in percent)	**50.8**	**0.1**

1/ Additional cyclical adjustment to account for the temporary impact of the COVID-19 pandemic on remittances (-0.9 percent of GDP).

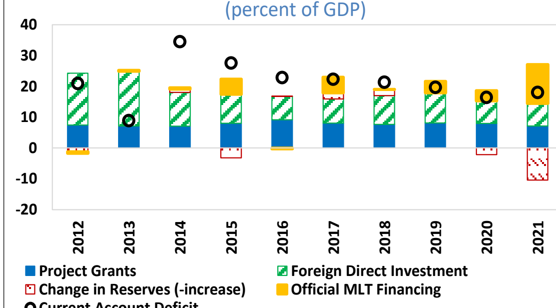
2/ Cyclically adjusted, including multilateral consistency adjustments.

Capital and Financial Accounts

3. Liberia receives substantial project grants, which are recorded in the capital account. While there are data weakness, best available information puts inflows at a rather stable 7.6 percent of GDP in the past few years. They reflect predominantly grants by donors to finance their projects and constitute an important non-debt-creating source to cover Liberia's large CA deficit. Indeed, they financed more than a third of it in 2021.

Figure 2. Main Financing Components of Current Account Deficit, 2012-21[1]

(percent of GDP)



1. Official MLT financing and change in reserves include the SDR allocation.

4. Under the financial account, Liberia benefits from sizable FDI inflows and donor loans. Again, with the proviso of data quality,[3] the financial account balance reached 21 percent of GDP in 2021—a peak due to large official medium- and long-term financing, notably the

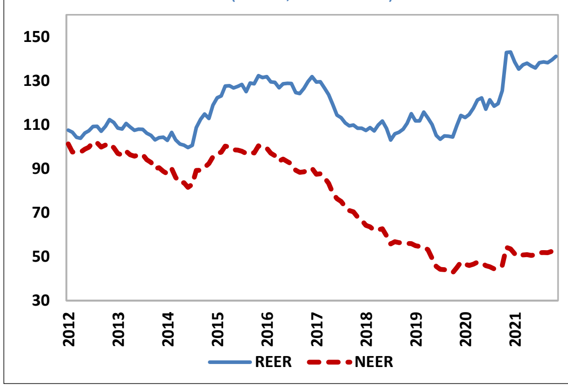
[3]Staff has been providing several TAs to assist the authorities in improving the quality of Liberia's external sector statistics with a focus on enhancing BoP and IIP data collection and compilation in a timely manner.

SDR allocation, in the wake of the COVID-19 pandemic. While the financial account balance has been volatile in recent years, net FDI inflows and medium- and long-term official financing averaged 8.3 percent of GDP and 3.9 percent of GDP, respectively, during the past 5 years. In 2021, FDI covered another 41 percent of the CA deficit in a non-debt-creating way and official financing, excluding the general SDR allocation and disbursements by the IMF, contributed a further 12 percent at low financing costs. Figure 2 illustrates that project grants and net FDI financed most of CA deficit in recent years.

Real Exchange Rate

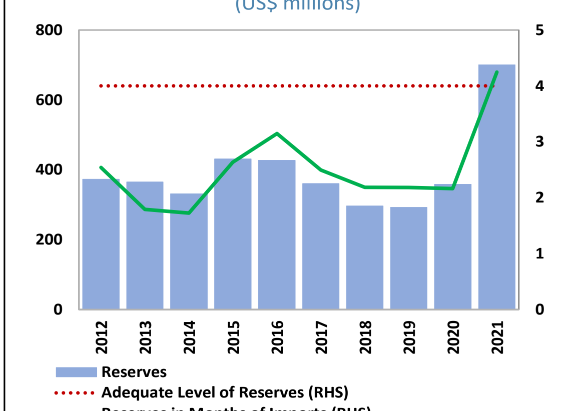
5. **The real effective exchange rate (REER) averaged much stronger in 2021, following the sharp appreciation at the end of 2020**. In previous years, the nominal exchange rate deprecated broadly in line with inflation differentials, but in late 2020 a shortage of Liberian dollar (LD) banknotes, a pandemic related rise in net remittances, and prudent monetary and fiscal policies triggered an unusual nominal appreciation and a sharp decline of inflation from 13.1 percent in December 2020 to 5.5 percent in December 2021, leading to a likely transitory REER appreciation. Figure 3 depicts exchange rate developments in the past decade.

Figure 3. Effective Exchange Rate, 2012-21
(Index, 2010=100)



6. **The EBA-Lite CA model suggests that the REER is substantially overvalued relative to the level implied by fundamentals and desirable policy settings**.[4] In light of Liberia's dual currency system and high degree of dollarization, with dollar-denominated exports, large import dependency, and extensive indexation, including of domestic wages, the exchange rate elasticity of the CA is low, and it would take a REER depreciation of over 50 percent to close the CA gap. The more realistic avenue to narrow the current account deficit is to work toward building over time a competitive exportables sector through infrastructure investment, structural reforms, and improvements in the business climate.

Figure 4. International Reserve Position, 2012-21
(US$ millions)



Reserves Level

7. **SDR allocation strengthened Liberia's international reserve position sharply**. At US$353 million, or the equivalent of some 10 percent of GDP, it almost doubled reserves to US$700 million corresponding to 4.2 months of

[4]Given issues with data quality in Liberia, there is substantial uncertainty around the model's point estimates.

goods and services imports at end-2021 (Figure 4). Rising donor support and stronger net remittances also provided scope for reserve accumulation during the pandemic. These developments allowed Liberia to put an end to many years of reserve deficiencies.

8. **Gross international reserves are assessed to be adequate**. The reserve adequacy model for credit constrained economies suggests that the level of foreign reserves considered adequate to withstand external shocks for Liberia is around 3.5 months of imports. Considering several country specific factors that the model does not take into account, such as Liberia's dual currency system, very high dollarization, vulnerability to terms of trade shocks, and large import dependency, staff recommends keeping international reserves at around 4 months of imports.

Overall Assessment and Policy Implications

9. **Based on the EBA-Lite CA model, staff assesses that the external sector position in 2021 was substantially weaker than warranted by fundamentals and desirable policies but notes that the CA account deficit is well financed for now and international reserves are adequate**. The current account is likely to remain in large deficit in the next few years as large mining projects drive up imports in their investment phase and net remittances normalize as the pandemic abates, with the likely normalization of the unusually strong REER providing only a limited counterweight. Strong FDI and donor support should suffice to cover the CA deficit without dipping into reserves or running up excessive foreign debt. That said, these levels of financing cannot be taken for granted indefinitely and Liberia should strengthen its external position through the development of a competitive exportables sector, which is also advisable in its own right for the development of the country. Achieving private-sector led growth requires structural reforms, investment in infrastructure and transportation linkages, such as roads and railroads, measures that improve governance and reduce corruption, and investment in human capital. Ongoing efforts to scale back dollarization are encouraged as they will allow the exchange rate to play a bigger role as shock absorber going forward.

Annex II. Risk Assessment Matrix, April 2022[1]

Sources	Likelihood	Potential Impact	Policies to Minimize Impact
External			
Rising and volatile food and energy prices.	**High**	**Medium**. Rising gas and rice prices reduce households' purchasing power and push up poverty. The higher import bill could become a drain on international reserves unless prices for iron ore and gold exports rise commensurately.	Generally, allow pass-through of import prices to domestic prices. Any relief measures for the population should be targeted to the extent possible, cost effective, transparent, and affordable.
Outbreaks of lethal and highly contagious COVID-19 variants lead to subpar/volatile growth, with increased divergence across countries.	**Medium**	**High**. An outbreak in West Africa could require stringent lockdown measures that would disrupt regional trade, local service sectors, and livelihoods.	Encourage the eligible population to get vaccinated. Seek additional financing and reprioritize expenditure to compensate revenue shortfall and make space for COVID-19 related support.
Natural disasters related to climate change.	**Medium**	**High**. Heavy rainfall and floods can erode and inundate agricultural land surfaces as well as coastal zones. It can also spread vector-borne disease.	Invest in climate adaptation, including resilient sanitation systems, protection of coastal zones, and extension services.
Liberia Specific			
Delay, slowdown, or discontinuation of ongoing structural and governance reforms.	**Medium**	**Medium**. General elections in September 2023 could derail structural reforms needed to support higher sustainable growth in favor of short-termism that undermines macroeconomic stability and longer-term potential.	Communicate the need for and benefit of structural reforms to the general public.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Rising social discontent and instability.	**Low/Medium**	**High**. Sharp fuel and rice price increases could spark widespread discontent with a risk of violent demonstrations that could undermine stability.	Improve communication, consider well calibrated social support measures, accelerate other reforms that improve living conditions (public services, infrastructure, business environment, etc.).
Disorderly currency changeover.	**Medium**	**Medium**. Loss of confidence in the banking system, increase in dollarization of the economy, unintended monetary policy implications.	Proceed according to the CBL's Currency Changeover Implementation Plan, secure adequate resources, and develop contingency plans.
Delays in putting all banks on a sound economic footing.	**Medium**	**Medium**. Reduced availability of credit and slowdown in economic activity, strains on financial sector stability.	Strengthening credit administration and underwriting standards, accelerating NPL resolution, better enforcement of regulatory requirements, and strengthening the information and legal infrastructure.

Annex III. Status of Key Recommendations for the 2019 Article IV Consultation

Fiscal Sector	
Deepen domestic revenue mobilization efforts	Implemented and ongoing Various revenue measures were introduced, including excise tax on fuel in June 2020. Administration reforms were introduced, including changes in the tax liability for personal income tax and cleansing the tax database to ensure proper filing of returns. Various capacity development missions were received. Revenue performance in FY2020/21 exceeded expectations.
Formulate realistic budgets	Implemented but needs continued attention Since FY2019/20, the authorities have generally been approving budgets underpinned by realistic revenue projections. Where revenues have underperformed, they have presented recast budgets to the Legislature. Also, public emergencies like COVID-19 pandemic were partly financed by re-allocating resources from other non-priority areas. Improvement in cash management has also enabled the authorities to contain spending within available resources during budget execution, although an unexpected revenue shortfall in the special budget for the second half of 2021 was not fully matched by expenditure under-execution.
Contain the growth of the wage bill	Implemented. After reducing salaries of top-level civil servants in 2018, the authorities implemented a 10 percent average wage cut in 2019 and complimentary reforms to limited further growth in the wage bill. Among these reforms, the government consolidated the base wage and allowances, which also formed a higher base for personal income taxes, centralized recruitment of civil servants at the Civil Service Agency, standardized grades and pay across the civil service, and put in place a requirement for biometric verification for all civil servants.
Adopt a sound borrowing plan that is anchored on debt sustainability	In progress Since 2019 government borrowing is guided by: (i) limited external financing to concessional and semi-concessional terms, (ii) absence of borrowing from the Central Bank of Liberia (CBL), and (iii) repayment of domestic arrears from allocations in the budget.
Rationalize spending to increase the size and quality of health and education sector spending	Partially implemented Health and education sector budgets have been allowed to grow to meet the demand for recruitment of teachers and clinical health workers. Since 2019, health and education are among the three sectors allowed to replace 100 percent of retiring staff and recruit new staff based on business need. For non-priority sectors, only up to 50 percent of retiring staff can be replaced based on the business need. However, goods and services budgets for education and health remain low with marginal growth relative to public administration.

Monetary and Exchange Rate Sector	
Tighten monetary policy	Implemented The CBL adopted a price based monetary policy framework in November 2019 and set the policy rate above inflation to ensure positive real interest rate. The rate has since been adjusted twice to now 20 percent as inflation declined.
Allow greater flexibility in the exchange rate	Implemented The CBL has not intervened in the foreign exchange market since December 2019, except for limited foreign-exchange purchases to strengthen the international reserve position. The recent appreciation of the Liberian dollar reflects shortages of fit LD banknotes and an increase in net remittances.
Eliminate the CBL's fiscal financing	Implemented Since FY2019/20, the government has adopted and executed budgets without CBL financing, except for limited on-lending of IMF resources. Improvements in cash management have enabled the authorities to contain spending to available resources.
Include the cost of CBL bills in the government budget	Implemented Effective January 1, 2020 the authorities consolidated the government's debt to the CBL into a single bond which increased the interest-bearing principal and increased the interest rate from 2 to 4 percent. The two factors have resulted in the CBL earning adequate income to service the interest on monetary policy instruments.
Only use the surrender requirement as a temporary measure to address extraordinary pressure on inflation and reserves.	Implemented Since its suspension in December 2019, the surrender requirement has not been reintroduced.
Rebuild reserves above the reserve adequacy level to increase resilience to external shocks	Implemented The CBL's early efforts to rebuild reserves through foreign exchange purchases from the government were soon set back by Liberian dollar shortages and financial sector stability concerns. However, higher interest income in foreign exchange from government bonds held by the CBL coupled with its efforts to reduce operational cost, eliminated a drain on foreign exchange. The general SDR allocation to Liberia, along with debt service relief under the IMF's CCRT restored reserves to adequate levels, which the authorities are committed to preserve.

Financial Sector	
Amend the Financial Institutions Act to strengthen supervisory, regulatory, and resolution frameworks	In progress. With technical assistance from the IMF, the authorities are finalizing amendments to the FIA and aim to submit it to the Legislature for approval by end-September 2022.
Improve loan underwriting standards to reduce NPLs in the banking system	Partially implemented and ongoing The CBL has conducted asset quality reviews for 8 out of 9 banks and has concluded strategies to resolve high NPLs with 6 banks. Implementation now needs to be closely monitored and enforced. The CBL has also undertaken to train banks in strengthening their credit departments, help upgrade underwriting standards, and improve classification of loans for appropriate provisioning. These efforts should be sustained.
Guarantee availability of Liberian dollars during festive seasons to maintaining confidence in the banking system and to safeguard its stability	Implemented Although Liberian dollar shortages continued in December 2019 and 2020, the Legislature approved in 2021 a three-year changeover plan for Liberian dollar currency and printing of a buffer to meet growing demand. The CBL has already started to receive banknotes under the plan, which were used to meet demand in December 2021. In addition, the Legislature approved amendments to the CBL Act under which the CBL obtains approval for a 3-year currency printing plan with flexibility on the timing and quantities to be printed within the approved amount.
Real Sector	
Implement decisive policy for children ages 6-14 to attend school regularly, and to secure sufficient qualified teachers	Partially implemented The authorities have been allocating part of the central government's education budget (in addition to donor support) toward the home-grown school feeding program which has been an important policy to keep children in school. To improve the quality of teachers, the authorities, replaced retiring teachers with more qualified ones.
Allow greater flexibility in fuel prices to avoid fuel shortages	Partially implemented Fuel prices are set based on international prices, shipping cost, domestic distribution costs, government taxes, and producer margins. However, in the recent bout of international fuel price increases, the authorities kept domestic prices from rising to reflect the international price movements by introducing temporary three-month cuts to excise and road taxes starting January 2021, which have been extended to the present day.

Governance	
Upgrade the anti-corruption and AML/CFT frameworks in line with international standards	In progress The amendments to LACC Act, the Code of Conduct, and the Whistleblower and Witness Protection Act were adopted by the Legislature. In addition. amendments to the Financial Intelligence Act to strengthen the AML/CFT framework were submitted to the Legislature for passage by end-2021 but have yet to be adopted.
Implement AML/CFT measures to tackle proceeds of corruption	Delayed Strengthening fit and proper provisions when licensing financial institutions; improving requirements to ensure that competent authorities readily have access to adequate, accurate, and timely information concerning the legal persons they deal with; continuing to improve the implementation of risk-based supervision; and issuing a regulation on opening and managing accounts of politically exposed persons were delayed due to capacity constraints.
Statistics	
Continue to improve statistics in all areas	Partially implemented Although the authorities have improved the quality of fiscal and monetary data, more still needs to be done to improve financial soundness indicators, national accounts and price statistics, and BOP data in accordance with IMF technical assistance recommendations.

Annex IV. Summary of Capacity Development Strategy

Background

1. **Liberia has achieved macroeconomic stability under the ECF-supported program, but structural reforms have been lagging**. President George Weah launched the Pro-Poor Agenda for Prosperity and Development (PAPD) in October 2018. Resource constraints and macroeconomic imbalances, however, challenged the authorities' efforts to improve the living standards of the population. Since December 2019, the authorities' efforts to reinvigorate the PAPD and to anchor medium-term policies and reforms to (i) restore macroeconomic stability, (ii) provide a foundation for sustainable growth, and (iii) address weaknesses in governance reform agenda has been supported by a four-year arrangement under the Extended Credit Facility (ECF). However, due to repercussions of the Covid-19 pandemic as well as the continued capacity weaknesses at the key implementing institutions a number of structural reform benchmarks have been missed or delayed.

Capacity Development Strategy and Priorities

2. **Limited absorptive and implementation capacity remains a key challenge to the effectiveness of CD activities in Liberia**. While the authorities attach significant importance to Fund CD assistance, key agencies-recipients of the IMF's CD assistance continue to face capacity challenges in implementing the TA recommendations. Mitigation measures have been to enhance information sharing, follow-ups, and coordination across experts in the field, HQ back-stoppers, other development partners providing TA; and the authorities. The country team is in close communication with all parties involved not only during the surveillance or program discussions, but throughout the year. Moreover, flexibility in the modality of CD activities (e.g., long- versus short-term experts, training versus TA) has helped improve absorptive and implementation capacity.

3. **The Capacity Development priorities for Liberia focuses on supporting the objectives of the authorities' development agenda (PAPD) and the ECF-supported program**. To restore macroeconomic stability (in particular, price stability), introducing a robust cash management and control systems at the Ministry of Finance and Development (MFDP) and strengthening the monetary policy framework/monetary policy operations were considered most urgent. Mobilizing domestic revenue remains one of the priorities in the CD strategy as financing of development and sustainable growth continues to face challenges. While building capacity in these areas remains their priority in the CD strategy, developing capacity in bank supervision / bank resolution has become a priority, as the weaknesses in the banking sector has elevated risks to financial stability in the past year. The CBL has begun a currency reform that is aimed at replacing the existing families of banknotes with the new banknotes and coins from 2021-24. While the Fund provided support in developing the high-level strategic plan, the CBL has asked for additional assistance as the currency exchange began at end-2021.

Liberia: Capacity Development Priorities and Objectives	
Priorities	**CD Objectives**
Public Financial Management	Strengthening expenditure controls and cash management, including by aligning commitments to cash and fully integrating all revenues and expenditures in the Integrated Financial Management Information System (IFMIS), making TSA fully functional; and conducting timely and complete annual financial statements and audits.
Revenue Administration	Revenue mobilization and broadening the tax base through streamlining of tax exemptions enhancement (including enhancing the reporting system for tax expenditures), cleaning up the tax database and simplification of filing the tax returns, and developing log frames to improve customs performance.
Bank Supervision and Regulation / Bank Resolution	Strengthen financial stability through updating the bank supervision framework, including regulation and guidelines; amending FIA (joint with LEG) and establishing its implementation framework.
Central Bank Operations	Developing and strengthening monetary policy operations and tools by introducing new instruments, improving liquidity forecasting, and orderly rollout of the currency changeover.
Improve quality of statistics	TA will focus on helping the authorities to improve: - compilation of the CPI, developing a Producer Price Index, and establishing national accounts; - quality of FSIs to start submitting for publication; - compilation of trade statistics, transfers and the capital account.

4. Liberia is an intensive user of capacity development support. During 2020-21, a total of 63 activities took place, 57 of which were technical assistance missions, to close capacity gaps and to improve the authorities' ability to implement its reform program. They covered a wide range of areas, reflecting Liberia's plethora of needs, but generally concentrated on public financial management, revenue administration, banking supervision, central bank operations, and economic statistics.

5. Capacity building is closely aligned with the ECF-supported program. For example, the currency change-over, reforms of the monetary policy framework, amendments to the FIA, the introduction of risk-based supervision, the establishment of the TSA, the tabulation of tax exemptions, and improvements to customs administration were all important reform measure and often subject to program conditionality. Building better economic statistics remains essential to guide effective economic policy making.

6. Capacity building also addresses data provision, which remains inadequate and hampers surveillance despite some progress. The authorities lack technical capacity to produce macroeconomic data in a timely manner. The authorities are benefitting from a range of technical assistance covering national accounts statistics, the balance of payments, financial soundness indicators, and government finance statistics. While steady progress is being made, the process is intrinsically time consuming. High staff turnover in government institutions and remote delivery of assistance during the COVID-19 pandemic pose additional challenges.

7. Capacity-building activities are listed in the Information Annex accompanying this report.

Appendix I. Letter of Intent

Monrovia, July 15, 2022

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

Dear Madam Managing Director:

On behalf of the government of Liberia, we would like to provide you with an update on the progress we have achieved under our economic program anchored by our national development plan, the Pro-Poor Agenda for Prosperity and Development (PAPD), and supported by the IMF's Extended Credit Facility (ECF). Since the IMF Executive Board completed the third review in November 2021, we have maintained macroeconomic stability and the economic outlook remains positive, albeit global uncertainty and rising commodity prices present serious challenges in the near term.

Despite continuous vulnerabilities stemming from the COVID-19 pandemic, program performance for end-June 2021 against quantitative targets and continuous performance criteria was quite strong. Five out of six performance criteria (PCs) were met. The target for the CBL's net international reserve (NIR) accumulation was missed by a small margin due to delays in bank recapitalization and in the launch of the currency changeover, both of which have meanwhile been accomplished. We also improved the coordination between the MFDP and the CBL regarding the foreign exchange purchases from the government. Due to clerical errors, the government incurred small external payment arrears in the second quarter of 2021, for which the IMF Executive Board granted a waiver of non-observance in the third ECF review. Four out of five indicative targets were observed. Capital spending fell short of the targeted amount because of funding and execution challenges. We also made good progress with implementing the structural reform agenda, albeit with delays due to disruptions from the pandemic and the heavy workload from our extensive reform program.

The attached Supplement to the Memorandum of Economic and Financial Policies (MEFP) sets out the government's objectives and policies for the rest of 2022. In line with program objectives, the government has revised the 2022 budget and submitted a supplementary to the Legislature for approval. In a major step forward in our fight against corruption, the Legislature has approved the legislative package that strengthens governance institutions and improves their transparency, including amendments to Liberia Anti-Corruption Commission Act, the Code of Conduct, and the Whistleblower and Witness Protection Act.

Given the delays in the conclusion of the program reviews up until now and with the test dates for the fifth and sixth reviews already past, we request a rephasing of the program, with the next review be based on the observance of PCs for the end-September 2022, the total number of reviews be reduced to seven from eight, and the envisaged disbursement for the eight review be equally distributed over the remaining reviews. Based on the strength of our corrective actions and policy response moving forward, we request a waiver for the nonobservance of the end-June 2021 PC on net international reserves. We would also like to request a reset to later target dates and the reformulation of several structural benchmarks to reflect the delays and challenges with their implementation. In light of the IMF's new debt limits policy, we also request to replace the PC on the ceiling on the contracting of new non-concessional external debt of the public sector with a ceiling on the present value of newly contracted public or publicly guaranteed external debt.

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

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

Sincerely,

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

Attachments:

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

Attachment I. Memorandum of Economic and Financial Policies

RECENT ECONOMIC DEVELOPMENTS

1. **The Liberian economy is rebounding from the setback brought on by the pandemic but is now facing the fallout from the war in Ukraine**. In 2021, real GDP grew by 5 percent, supported by the strong performance in the gold, rubber, cement, and palm oil sectors. After a strong and continuous decline starting in early 2020, inflation is picking up from the trough of 5.5 percent at end 2021. Accelerating fuel and food prices are the main drivers, which has so far been the main impact of the war in Ukraine. While the current account deficit deteriorated slightly to 18 percent of GDP in 2021, the general SDR allocation from the IMF roughly doubled Liberia's international reserve coverage to over 4 months of imports.

OUTLOOK AND RISKS

2. **Thanks to our commitment to macroeconomic stability and reforms, economic growth should settle at 5-6 percent in the medium run**. For 2022 we expect a soft patch as the global economy slows and sharply higher international prices diminish the purchasing power of Liberian households. But economic activity should still expand by 3.7 percent, reflecting favorable prices for rubber exports, a buoyant gold sector, the opening of a new iron ore mine, and expansionary fiscal policies. In the medium run, the economy should benefit from large foreign direct investment, especially in the mining sector where a deal to triple iron ore production is within reach. Our structural reforms should strengthen the economy throughout as should the further entrenchment of macroeconomic stability. We have already largely achieved our objective of single-digit inflation and the ongoing changeover to a new Liberian dollar currency to address shortages of fit banknotes should help boost confidence.

3. **The economic outlook is subject to several downside risks**. The war in Ukraine could take a larger toll than expected on global economic activity and international fuel and food prices. The impact of the global monetary tightening cycle enters another caveat. A possible global or local resurgence of the COVID-19 pandemic is also a downside risk to the outlook. We are putting in place policies and measures to mitigate any domestic risks, such as operational challenges associated with the currency changeover, financial sector vulnerabilities, and budgetary pressures from mitigating the poverty impact of inflation and the need to support struggling but vital public enterprises.

PROGRAM PERFORMANCE

4. **Program performance against quantitative targets for end-June 2021 was quite strong**. This favorable track record extended to end-December 2021 and end-March 2022. However, timely implementation of the structural reform agenda proved challenging.

5. **Five out of 6 performance criteria (PC) for this review were met** (Table 1):

- The floor on the **primary fiscal balance** has been observed thanks to strong revenues and disciplined budget execution. The end-December 2021 target was missed mainly because revenues from the envisaged ratification of a Mining Development Agreement (MDA) did not materialize. The end-March 2022 target was observed.

- The public sector refrained throughout from the contracting or guaranteeing of **new non-concessional external debt**.

- The Central Bank of Liberia (CBL) stayed within set limits for **operational and capital expenditures**. Targets for end-December 2021 and end-March 2022 were also observed.

- The ceiling on the **CBL's gross direct credit to the government** was observed, including in December 2021 and March 2022.

- Due to clerical errors, the government incurred small **external payment arrears** in the second quarter of 2021, for which the IMF Executive Board already granted a waiver of non-observance in the third ECF review. All external arrears have meanwhile been cleared and no new arrears arose so far in 2022.

- The target for the **CBL's net international reserve accumulation** for end-June 2021 was missed by a small margin, mainly reflecting delays in bank recapitalization and in the currency changeover when the lack of LD banknotes obviated planned foreign-currency purchases. The target for end-December 2021 was met but the one for March 2022 was slightly missed again because of insufficient foreign exchange purchases of the CBL from the government. Purchases have been stepped up since.

- **Four out of 5 indicative targets (IT) for end-June 2021 were observed** (Table 1):

- **Total revenue collection** exceeded the target. It was missed for end-December 2021 when the MDA-related revenues failed to materialize and also at end-March 2022 because of lower-than-expected trade taxes.

- The target for **net domestic assets of the CBL** was met for end-June 2021, as well as for end-December 2021 and for end March 2022.

- **Social spending** reached the targeted level, as well as for end-December 2021 and end-March 2022.

- **Domestic payment arrears** were avoided through June 2021, but some debt domestic debt service fell into arrears in the fourth quarter of the year. They have since been cleared.

- **On-budget capital spending** fell short of targets throughout because of funding and execution challenges.

6. **Implementation of the structural reform agenda experienced delays**. Only 2 out of 18 structural benchmarks (SBs) were met on time, but a further 7 having have meanwhile been implemented with delay, including 3 as *prior actions* (Tables 2 and 3):

- We have regularly compiled **reports on foreign exchange withdrawals** from the CBL and furnished them to the Board of Governors (BoG).
- A **methodology for forecasting future demand for banknotes by denomination** has been developed.
- After the deadline, the Minister of Finance and Development Planning (MFDP) issued a **circular to mandate government contracts to be accompanied by purchase orders generated by the Integrated Financial Management and Information System (IFMIS) to be honored**.
- After the deadline, the CBL destroyed **unfit notes**.
- After the deadline, **the semi-annual external audit report on the CBL's foreign exchange reserves** was finalized.
- After the deadline, the CBL put in place a **dual control security** strategy for access to its vault area.
- After the deadline and as a *prior action*, the Legislature adopted amendments to the **Liberia Anti-Corruption Commission (LACC) Act and to the Code of Conduct**.
- After the deadline and as a *prior action*, the Legislature adopted the **Whistleblower and Witness Protection Act**.
- After the deadline, the **audit report for the FY2019/20 budget** was submitted to the Legislature.
- The amended **Financial Institutions Act (FIA)** has not yet been submitted to the Legislature, because of extended consultations with pertinent stakeholders and legal vetting. It is currently awaiting BoG approval.
- The two SBs on the establishment of a **treasury single account (TSA)** were missed—the closure of all bank accounts of ministries, public agencies, and public commissions (MACs) at commercial banks and the transfer of the balances to the CBL; and putting the structure of the TSA at the CBL in place. Nonetheless, important progress has been made. All commercial bank accounts of MACs have been tallied, letters requesting their closure have been sent, roughly half of the accounts have been closed, and technical discussions on the architecture of the TSA are well advanced.
- Instead of establishing a comprehensive log-frame of concrete actions to improve the **business climate** in Liberia, we have identified four priority areas for policy actions. They cut across the

micro and macro aspects to include subsistence and formal sectors, with a view to unlocking private sector potential for economic growth and free trade.

- We have yet to draw up a list of concrete measures to **streamline tax expenditures**. A summary tax expenditure report has been prepared in the context of the completion report for the special 2021 budget.

- The issuance of **guidelines to banks on risk-based supervision** remains pending, but a framework has been adopted by the CBL's BoG and a manual for supervisors has been finalized.

- Two SBs on bank resolution that presupposed timely adoption of the FIA remain to be implemented. They relate to **bank resolution**, namely the approval of operational guidelines, policies and manuals needed for a comprehensive resolution regime and the establishment of an organizational unit in charge of resolution issues.

- While a compliance unit has been established at the CBL, its staffing and terms of reference have yet to be finalized, so that the first quarterly **compliance report** for October-December 2021 envisaged under the SB could not be produced.

ECONOMIC AND FINANCIAL POLICIES FOR THE PROGRAM

A. Fiscal Policy

7. Fiscal performance in FY2020/21 was strong. The primary fiscal deficit excluding grants overperformed the program target by US$30 million (0.9 percent of GDP), allowing the accumulation of government deposits at the central bank. This was mainly the result of strong revenue performance, due to the introduction of a fuel excise tax, changes in the application of the personal income tax, robust border tax collection on the back of strong imports, and progress with revenue administration reforms. Some of this fiscal space was used for selected hiring of teachers, health workers, and prosecutors and for supporting critical SOEs affected by the pandemic.

8. Execution of the 2021 special budget for the period July-December 2021 was derailed by the failure to ratify an MDA. The associated one-off payment of US$30 million did not materialize and the primary fiscal balance target missed, despite keeping spending below budget, including through reversing non-priority spending commitments worth US$11 million that were not yet subject to binding contracts. To avoid arrears, we also borrowed US$12 million from commercial banks.

9. Recent developments require a recast of the 2022 budget while keeping spending in line with available revenues and financing sources. As a *prior action*, we have submitted a supplementary budget to the Legislature with spending (excluding debt amortization) of no more than US$741 million, of which at least US$72 million will go toward public investment, implying a deficit of US$94 million (2.4 percent of GDP) and of US$171 million (4.3 percent of GDP) when projects financed by development partners are included.[1] It allows for (i) additional support of the Liberia Electricity Corporation (LEC) to ensure stable electricity supply and connection to the regional power pool CLSG (US$18 million); (ii) a rice subsidy to mitigate the impact of soaring international prices on common citizens (US$11 million); (iii) support for the international airport in Monrovia to ensure its safe operation (US$2 million); (iv) funds to repay the short-term loan from commercial banks contracted to avoid payment arrears during the special budget period (US$12 million); and (v) miscellaneous other outlays (US$10 million). To offset this total additional claim on our resources (US$53 million), we (i) reduced other current and capital spending (US$21 million); (ii) secured additional domestic revenues (US$5 million); (iii) postponed the envisaged payback of Liberian-dollar-denominated T-bonds (US$12 million); and (iv) benefitted from a top-up of the Development Policy Operation of the World Bank (US$15 million).

10. The 2023 budget will make a start with reducing the fiscal deficit in line with our commitment to prudent fiscal policies. It will be guided by debt-sustainability considerations and the availability of financing, which will mostly take the form of concessional budget support from development partners. The government reaffirms its determination not to fall back on direct credit from the CBL and to avoid incurring payment arrears as per the Central Bank Act and the commitments under this program. Constructing a budget around these parameters will be a focus of the next program review.

11. We remain committed to sound public finances. The 2022 budget relies on extraordinary financial support from development partners and one-off revenues, which cannot be taken for granted going forward. We therefore aim to contain support measures for public entities, further reprioritize spending as needed, increase spending efficiency, and improve revenue mobilization in the future. Key measures include:

- To avoid a repeat of debt service payment arrears, the CBL and the MFDP signed an MoU that gives the CBL an increased role in the payment process and makes it more automatic.

- We remain committed to containing the wage bill. By limiting the replacement of retirees in non-social sectors to 50 percent, we have managed to reduce the size of the civil service from 75,000 in 2019 to 70,000 in 2021. In 2022, through physical verification of employees, additional retirement, and stringent justification requirements for new recruitment, we intend to further reduce the number of employees to 67,000. In order to avoid disincentives to retire, the civil service pension system needs to be implemented properly, including (i) remitting pension deductions in a timely manner, (ii) matching aggregate pension payments to the National Social Security and Welfare Cooperation (NASSCORP) with beneficiaries, and (iii) paying benefits in full

[1] This implies a US$807 million budget envelope, which includes besides expenditure also debt amortization. For program purposes the following items of the PSIP are not considered public investment in line with GFS conventions: spending on elections (US$20 million), transfers to the Road Fund (US$23 million); outlays for vaccinations (US$4.4 million); rice subsidies (US$11 million); subsidies for LEC (US$23 million); arrears clearance on behalf of LEC (US$2 million), repayment of project grants (US$1 million); and agricultural value chain development (US$0.6 million).

and on time. To this end, the Civil Service Agency is working with NASSCORP to sign up the 45,000 civil servants that were unregistered in September 2022.

- We have intensified efforts to allocate human resources in the civil service more efficiently. We are establishing databases that match the locations of teachers with students and healthcare workers with patients. We intend to expand this matching exercise to the entire public sector.

- To improve implementation of the Public Sector Investment Program (PSIP), we will prioritize projects that are ready for immediate implementation. Going forward, we will prepare a framework paper on the public investment management cycle, which takes a global view of the planning and preparation of all development projects, including those funded by development partners. We will develop the pipeline of the approved sector projects spearheaded by the Project Implementation Unit (PIU) of the MFDP.

- To better protect capital spending in budget execution, transfer of funds from approved capital budgets to recurrent spending will need to be accompanied by appropriate justification and follow the procedure set out in the Public Finance Management Act (2009) and the Budget Transfer Act (2008).

- We will continue to advance the TSA project and are committed to making it fully operational. During the last visit of the IMF expert accompanying the project, 509 accounts of MACs at commercial banks were identified. Many of them have meanwhile been closed or identified as donor-project accounts, which remain outside the TSA parameter. Moreover, 45 other accounts will need to remain open, for now, because they pertain to institutions that operate in regions of the country where the CBL has limited presence and to support regional fiscal decentralization. We have provided IMF staff with the list of the 509 accounts and identified donor-project accounts, the 45 other account to remain open, accounts already closed, and accounts subject to forthcoming closure. We will close all accounts of MACs at commercial banks and transfer the balances to the CBL by end-September, if necessary, per order of the Minister of Finance and Development Planning, except donor-project accounts and 45 other accounts pertaining to institutions that operate in regions of the country where the CBL has limited presence and to support regional fiscal decentralization (*SB proposed to be reformulated and reset SB to end-September 2022 from end-December 2021*). In a second step, we will finalize and implement the TSA's account structure in consultation with IMF technical experts and guided by our concept note (*SB proposed to be reformulated and reset to end-October 2022 from end-March 2022*).

- To mobilize additional domestic revenues, we will further streamline tax exemptions and ensure their proper application. We have already reduced the generosity of the investment tax incentive regime, by cutting the validity period to 3 from 5 years and limiting the number of qualifying sectors to 9 from 18. We are now considering the next package of reductions, including the following specific areas:

(i) Transforming duty waivers for Liberian returnees into a rebate system, where returnees would pay and, once proof of official residence in Liberia is established, get reimbursed, which could be done as early as September;

(ii) Directing that all government contracts be inclusive of tax, which could be done as early as July;

(iii) Replacing petroleum tax exemptions by a tax rebate system, which could be done as early as August;

(iv) Curtailing duty waivers for the import of vehicles by members of the Legislature, which will require further engagement with legislators;

(v) Further narrowing of the investment tax incentive regime, where a commission is already at work with a report due in August;

(vi) Reducing the scope of exemptions that can be granted by decree; and

(vii) Narrowing tax exemptions that are allowable in concession agreements.

- We are committed to adopting a package of tax exemptions with a revenue yield of at least US$15 million in 2023 by end-October 2022 (*proposed SB for end-October 2022*), with the annual yield expected to increase further in subsequent years when all measures are fully phased in. Adoption means issuing pertinent directives, circulars, or regulation and, in case legislative action is needed, approving draft legislation in cabinet.

- We are determined to step up the LRA tax audit efforts. Large companies are being audited more systematically. Tax filings will be better cross-checked, including by using third-party data. Moreover, tax clearance certificates are now required to bid for government contracts and to benefit from tax exemptions.

- Electronic fiscal devices and excise stamps on tobacco and alcohol have been rolled out and enforcement has begun.

- We will leverage technology to ensure that tax payments are accompanied by proper filing. The introduction of the Integrated Tax Administration System (ITAS) will support this effort.

- We are committed to putting in place legal and regulatory requirements by September 2022 to allow the integration of the Liberian Telecommunication Authority into the consolidated government budget from 2023. The Liberian Maritime Authority will also be integrated at a later date.

- For the remainder of 2022, we plan to continue adjusting petroleum prices in line with developments in international markets using the existing pricing formula. Should international prices rise much above June 2022 levels, we may consider in consultation with IMF staff temporary measures to contain further price increases at the pump next year, with the costs covered in the 2023 budget and margins of supplies protected. We will remove these measures when international oil prices recede and eventually also restore the fuel excise tax earmarked for the Road Fund to its original level of US Cent 30 per gallon from US Cent 20 per gallon currently. In the interim, we will compensate the Road Fund for the revenue loss to ensure sufficient resources for road maintenance.

- We intend to replace the general sales tax by a value-added tax (VAT) to improve the efficiency of our tax system and broaden the tax base. Recognizing the scale of this important reform project and building on the significant progress already made, we will push ahead with more preparatory work through next year with a view to having a comprehensive draft legislation package ready for submission to the Legislature by late 2023 or early 2024. We will closely consult with IMF staff and experts, supplementing the support that we are already receiving from the Economic Community of West African States.

12. Based on the updated Debt Sustainability Analysis (DSA), Liberia's rating for distress risk of external is moderate and high for overall debt. We are committed to bringing both ratings to moderate through prudent fiscal policies and by prioritizing concessional sources of funding. In present value terms, public debt is projected to decline from 39 percent of GDP in 2021 to 33 percent of GDP in 2026. We intend to expand the coverage and quality of SOE debt in our debt management reports. The General Audit Commission (GAC) is vetting the validity of past arrears claimed by vendors. To the extent that they are validated but not yet paid off, they will be included in the stock of public debt.

B. Monetary Policy

13. Monetary policy will remain geared toward price stability. After two cuts during the pandemic, the CBL has kept the monetary policy rate at 20 percent since August 2021, thereby achieving pronounced disinflation while safeguarding the economic recovery. While real interest rates remain high, the CBL intends to leave the policy rate unchanged for now, considering the many uncertainties, notably sharply increasing food and commodity prices, as well as the ongoing currency changeover operation. It will closely monitor inflation and exchange rate developments. The intention is to keep inflation at around 10 percent in 2022, thereby striking a balance between protecting our hard-earned price-stability track record while taking inescapable external price pressures duly into account. In the medium term, we aim to reduce inflation to around 5 percent. CBL bills will remain the main policy instruments, while steady foreign exchange purchases from the government serve to accumulate international reserves. The CBL will revisit its long-standing plans to harmonize reserve requirements for U.S. dollar and Liberian dollar deposits in the first quarter of 2023.

14. The first phase of the currency changeover is being successfully rolled out, but the implementation plan for the next phase requires modifications. We have taken delivery of the emergency shipment of new banknotes last December and this February that helped avoid renewed cash shortages during the Christmas season. The operation proceeded smoothly and most of the emergency delivery has been infused into the economy. The official implementation plan for the handling the bulk delivery of banknotes and coins in the second semester of this year has however been upended by delays in making a secondary CBL processing facility operational. The BoG has approved amendments to the plan that moderately push back the delivery schedule; provide for secure off-site storage of coins, and expand processing capacities at headquarters. We are pushing ahead with our preparations and are striving to mitigate any risks by putting rigorous security, accounting, reporting, and transparency arrangements in place.

15. The currency changeover and progress with entrenching macroeconomic stability are setting the stage for the CBL to move forward with longstanding plans to modernize its monetary policy framework. This comprises (i) adopting a flexible reserve money operating target framework and using interest-rate based instruments to implement monetary policy in the short term, consistent with the policy objective; (ii) resuscitating the interest rate corridor system; and (iii) conducting CBL bill auctions at a variable rate tender as soon as it is appropriate but not later than June 2023 (*proposed SB for end-June 2023*). These refinements will prepare the ground and the infrastructure necessary for a successful transition to a full-fledged interest-rate based framework. To strengthen the institutional structure for monetary policy decision making, the CBL will constitute the Monetary Policy Committee (MPC), which would assume responsibility for formulating monetary policy.

16. De-dollarization of the Liberian economy remains an important plank of the reform program. Less reliance on the use of the U.S. dollars will improve the effectiveness of monetary policy, while also facilitating the accumulation of foreign reserves and increasing seigniorage. We recognize that the de-dollarization process will take time and requires concerted efforts on the part of the government, the CBL, and the private sector. In this context, the government reaffirms its commitment to progressively raise the share of the government wage bill paid in Liberian dollars from currently 20 percent to 35 percent and to also increase the use of Liberian dollars in other transactions to the extent possible. Likewise, the CBL reaffirms its commitment to sustaining payment of half of its wage bill in Liberian dollars and to increasingly conduct other domestic transactions in Liberian dollars. To give de-dollarization more impetus, we are considering drawing up a more formal and fuller plan with additional measures in prudential regulation, the administrative area, and in Liberian dollar-denominated contracting.

17. We remain committed to maintaining gross official reserves at around 4 months of imports to underpin external stability. To achieve this, we plan to accumulate foreign reserves gradually through the purchases of foreign exchange from the government. The CBL and the MFDP agree to facilitate regular foreign exchange purchases in the total amount of at least US$45 million in 2022, US$50 million in 2023, and to gradually scale up the pace of purchases in subsequent years.

C. Financial Sector Policies

18. The CBL is addressing the challenges that Liberia's banking system faces. Regulatory capital and liquidity requirements are met at the system level, but challenges remain across banks.

High non-performing loan (NPL) ratios are a particular concern with all but one banks exceeding the 10-percent threshold, which by regulation requires closer monitoring and supervisory actions to remedy the problems. Following up on its diagnostic reviews of banks' asset quality, the CBL will require banks to report on NPL developments and progression according to a standardized template on a quarterly basis. It will strictly enforce provisioning regulations, including the write-off of NPLs that are older than three years. Banks will be asked to inject additional capital as needed. The CBL will prepare quarterly reports on NPL developments in the banking sector to its BoG beginning at end-December 2022. The CBL is studying options to aid banks' recovery efforts. In particular, it may apply regulation to disallow delinquent borrowers from the use of any banking services in consultations with banks. The CBL intends to resume enforcing penalties for violations of reserve requirements in the third quarter of 2022. In the interim, non-compliant banks will continue to be subject to other supervisory measures. We will strive to address the data issues related to capital adequacy and NPL ratios, which hamper the analysis of macro-financial risks and compromises stress-testing results. To this end, we will implement the recommendations of the IMF capacity building mission on financial soundness indicators, including the implementation of data validation checks to flag imbalanced reports, missing data, or reporting errors, and on reliably calculating risk-weighted assets.

19. We are committed to pushing ahead with reforming the Liberian Bank for Development and Investment (LBDI). Completion of the government's US$31 million capital-injection program last November and the appointment of a new CEO (*prior action*), have been important milestones. The alignment of LBDI's books with supervisory findings is well advanced. The immediate priority is to strengthen record keeping at the bank, to step up NPL collections, and to improve underwriting stands, while preserving liquidity and containing operating costs. The government remains intent on attracting additional investors to secure sufficient capital and liquidity for LBDI to safely expand its operations, giving the bank a new strategic orientation, and reducing the government's dominance on the board. The CBL's Special Supervisory regime remains in place for now.

20. The CBL's supervisory tool kit is being strengthened. We will submit the FIA to the Legislature this September (*SB proposed to be reset to end-September 2022 from end-February 2022)*. Upon its adoption the CBL will acquire a wide range of powers to deal with distressed banks, as well as authority to impose supplementary capital buffers. With the adoption of the FIA, we will also be in a position to strengthen the bank resolution regime, with the BoG approving pertinent operational guidelines, policies, and manuals (*SB proposed to be reset to end-January 2023 from end-April 2022*) and CBL management assigning specialized staff (*SB proposed to be reformulated and reset to end-March 2023 from end-May 2022*). Regarding the introduction of risk-based supervision, a framework and a manual for supervisors are being readied for adoption by the BoG. Guidelines for banks have been sent to the industry for final commenting and should be ready for issuance in September (*SB proposed to be reset to end-September 2022 from end-April 2022*).

GOVERNANCE

21. We recognize that corruption remains one of the key impediments to economic development, unleashing the private sector, and reducing poverty. Accordingly, governance issues figure prominently in Liberia's national development plan—the Pro-Poor Agenda for Prosperity and Development. We remain committed to implementing the key measures and have made progress. Specifically:

- Most importantly, the Legislature adopted the Amended and Restated Liberia Anti-Corruption Commission (LACC) Act (*prior action*). It establishes a new procedure to appoint Commissioners to ensure maximum integrity and impartiality. Once a new commission will have been established under the new procedures, the LACC will be granted prosecutorial powers. The act also accords the LACC primary responsibility for administering the asset declaration regime for high-level public officials. We aim to constitute the selection panel that draws up a shortlist of candidates for the commission by end-August 2022, to finalize the shortlist by mid-October 2022, and the President to nominate commissioners for Senate confirmation by mid-November 2022.

- The Legislature also passed the Whistleblower and Witness Protection Act, and the amendments to the Code of Conduct (*prior action*).

- The Public Procurement Commission (PPCC) is making great strides in improving transparency. Publication of awarded contracts and associated key information for FY2020/21 is almost complete. Publication of contracts pertaining to the 2021 special budget is under way. In a bid to improve compliance, MACs are now denied funding if they fail to submit contract information in a timely manner. The PPCC is working with the Liberian Business Registry to determine beneficial ownership of companies that recently won public contracts. Going forward, it will require all bidders to disclose beneficial ownership information and it has asked them to also record this information in the PPCC's vendor registry. Beneficial ownership of companies winning public contracts will be published.

- We are committed to improving the quality and timeliness of the government's audited annual financial statements. The audit report for the FY2019/20 budget has been submitted to the Legislature (*prior action*). We intend to submit the audit report for the FY2020/21 budget by end-September 2022 (*proposed SB for end-September 2022*). To improve the quality of audited statements, the GAC is pushing for all government agencies to submit their financial statements. The government is committed to addressing the shortcomings identified in audit reports.

- To improve the effectiveness of our integrity institutions, notably the LACC, the PPCC, and the GAC, we have sharply increased their allocations in the 2022 budget and are committed to protecting their funding in budget execution.

22. The CBL remains steadfast in strengthening its governance. The transparent procurement of new banknotes and coins in a competitive tender has been a notable achievement that secured favorable pricing. We will spare no efforts to implement the ongoing currency changeover with maximum transparency, clearly set-out procedures, and meticulous recording and reporting. The CBL's audited financial statements are of good quality and they will be finalized in a timely manner going forward. The CBL will continue to commission semi-annual external audits of its foreign exchange reserves and to prepare monthly reports on foreign exchange movements for its BoG (*recurrent SBs*). The self-assessment of the CBL's internal audit is nearing completion, with a report to the BoG expected in August. A compliance unit reporting to the Executive Governor has been established, which will be responsible for monitoring compliance with legal provisions, policies, and regulations. It will furnish its first report for the fourth quarter of 2022 (recurrent *SB proposed to be reset to apply from 2022 fourth quarter instead of from the first quarter of 2022*).

23. We are also addressing weaknesses in the legal and regulatory oversight of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT). Draft AML/CFT legislation and a draft Act on the Financial Intelligence Agency has been submitted to the Legislature and is currently being finalized in the Senate-House conference. The law will establish a National Coordination Committee (NCC), chaired by the Minister of Finance and Development Planning and comprising key stakeholders, including the CBL, the Financial Intelligence Agency, and the Ministry of Justice, which will manage the work on developing a coherent strategy for implementation and oversight of the revised AML/CFT laws and regulations. A new National Risk Assessment report was completed and published in September 2021.

GROWTH AND STRUCTURAL REFORMS

24. We intend to improve the business environment and expand economic growth through jobs creation, revenue mobilization, and access to justice. Emerging from recent discussions on the business climate and linking up with a World Bank-funded project on the business climate Liberia Investment, Finance, and Trade (LIFT) project, we have identified three priority areas for reform:

- **Trading across borders**. Free trade is hampered by delays in import and export document processing, challenges with clearing and transportation of goods throughout the country, and by the time it takes to load and offload containers. Additionally, the arbitrary prevalence of checkpoints along major trading routes has impeding the free movement of goods in and between the various counties. We are making deliberate efforts to reduce the number of checkpoints and improve trading outcomes.

- **Registering a business**. The business registration process has been challenging due to limited access to electricity, inadequate digitization, and lack of decentralization of the registration process. The Government of Liberia intends to mitigate the situation by revitalizing a digital and decentralized one-stop shop at the Liberia Business Registry (LBR). We are committed to aligning the business registration systems between the LBR, Liberia Revenue Authority (LRA), the MFDP, and the Ministry of Commerce and Industry to ensure a seamless business registration process to reduce down-time and resolve other challenges.

- **Enforcing contracts**. The lack of digitalization, capacity challenges at the judiciary and the inconsistent access to electricity are perennial problems confronting the Commercial and other courts, which in turn affect contract enforcement. To achieve the objective of digital business processes, we are committed to increasing and rationalizing support to the judiciary. Support will go toward procuring computers to facilitate digitalization, conducting training for judges, and ensuring more reliable electricity at relevant courts through constant monitor of budgetary codes affecting use of electrify at these facilities.

25. We will hold consultations with stakeholders to establish an implementation plan with concrete actions, milestones, and responsibilities (*SB proposed to be reformulated and reset to end-December 2022 from end-March 2022*). In other reforms, to facilitate financial sector development and inclusion, the CBL is building a modern credit registry based on national identifiers. And to promote digital finance, it is establishing a "national switch" that will facilitate inter-operability between banks, mobile money operators, microfinance institutions, and other financial service providers.

26. The government will address poor public services in agencies where significant problems have recently come to the fore. The Liberian economy has long been suffering from unreliable and insufficient electricity supply by LEC. Despite large-scale support from development partners over the years, LEC's finances are precarious, power theft is rampant, and operational efficiency is low. Immediate financial support from the budget is unavoidable, but we realize that a lasting solution requires deep reforms. We will prepare a comprehensive reform action plan for validation by pertinent development partners and cabinet adoption in October (*proposed SB for end-October 2022*). We are also about to appoint a new management team. In the same vein, the government will demand fundamental reform of the airport authorities and is about to appoint new management.

27. Liberia is going to be one of the countries most impacted by climate change, putting our sustainable development at risk. We are cognizant of it disproportionately affecting the poorer parts of the population. Dealing with the climate change takes a concerted effort both on a global and national scale. We intend to act on the priority areas identified in Liberia's National Adaptation Plan, prioritize scaling up interventions toward climate change adaptation, put in place the accountability arrangements necessary for unlocking international support, systematically include climate change considerations into public investment decisions, and move ahead swiftly with soft measures that require few financial resources, such as climate conscious zoning and extension services.

PROGRAM MONITORING

28. The program will be monitored by quantitative performance criteria, structural benchmarks, indicative targets, and reviews, as set out in Tables 1, 4, and 5 of this Memorandum and the attached Technical Memorandum of Understanding, which also defines the scope and frequency of data to be reported for program monitoring purposes. The substantial delays in completing the fourth program review warrant a rephasing of the remainder of the program and reducing the number of reviews from eight to seven. The fifth and sixth reviews are expected to be completed on or after December 1, 2022 and April 1, 2023, respectively.

Table 1. Liberia: Quantitative Performance Criteria (QPC) and Indicative Targets (IT) for the Program Under the ECF Arrangement, June 2021–June 2023

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

	Jun. 2021			Sep. 2021			Dec. 2021			Mar. 2022			Jun. 2022	Sep. 2022	Dec. 2022	Mar. 2023	Jun. 2023
	PC	Prel.	Status	IT	Prel.	Status	IT	Prel.	Status	IT	Prel.	Status	IT	PC	PC	IT	IT
														Proposed			
Performance Criteria[1]																	
Floor on primary fiscal balance, excluding grants [2, 3]	-33.4	-4.2	Met	8.4	5.1	Not met	18.5	4.0	Not Met	-21.0	1.0	Met	-19.1	-36.0	-61.0	7.0	15.0
Ceiling on contracted new non-concessional external debt of the public sector (continuous) [2]	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	-	-	-	-
Present value of new public and publicly guaranteed external debt contracted [2]	-	-	-	-	-	-	-	-	-	-	-	-	-	88.4	88.4	92.2	92.2
Ceiling on new external arrears of the central government (continuous)	0.0	3.3	Not met *	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
Ceiling on the CBL's operational and capital expenses [4, 5]	20.6	12.6	Met	26.3	20.5	Met	30.1	29.9	Met	12.8	6.8	Met	20.6	26.3	30.1	12.8	20.6
Floor on the change in the CBL's net international reserves [4, 6]	29.4	27.2	Not met	34.1	26.6	Not met	369.3	370.3	Met	9.8	7.5	Not met	14.3	28.4	41.1	7.3	17.0
Ceiling on CBL's gross direct credit to central government [7]	548.8	548.8	Met	548.8	548.8	Met	539.9	539.9	Met	539.9	539.9	Met	539.9	539.9	539.9	539.9	539.9
Indicative Targets																	
Floor on total revenue collection of the central government [2]	438.0	522.5	Met	118.2	135.2	Met	309.0	286.0	Not met	152.5	142.0	Not met	305.0	473.0	644.0	164.0	347.0
Ceiling on new domestic arrears/payables of the central government (continuous)	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
Floor on social and other priority spending [2]	65.6	71.0	Met	16.0	18.4	Met	33.9	37.0	Met	21.5	21.9	Met	37.4	55.7	74.7	18.7	37.4
Floor on on-budget capital spending [2]	11.8	3.0	Not met	6.6	0.4	Not met	25.0	5.0	Not met	29.6	2.6	Not met	36.1	37.0	54.0	4.0	12.0
Ceiling on net domestic assets of the CBL [7]	239.7	233.9	Met	235.7	244.2	Not met	273.6	245.9	Met	269.0	243.9	Met	252.6	265.8	266.1	260.8	253.5
Memorandum Items																	
Ceiling on disbursement of concessional external debt	365.0	317.4	Met	405.0	334.0	Met	440.0	388.3	Met	472.7	420.8	Met	505.4	-	-	-	-
Floor on wage bill of school teachers [2]	33.2	33.2	Met	8.0	8.3	Met	16.0	17.8	Met	8.9	9.9	Met	17.8	25.4	33.9	8.5	17.0
Floor on wage bill of core and non-core clinical health workers [2]	32.4	37.6	Met	7.8	9.9	Met	15.6	19.2	Met	7.8	12.0	Met	15.6	30.2	40.3	10.1	20.2
Floor on spending on home-grown school feeding program [2]	0.01	0.33	Met	0.13	0.12	Not met	0.25	0.24	Not met	0.13	0.11	Not met	0.25	0.38	0.50	0.13	0.25

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

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

[2] Numbers before July 2021 are cumulative from the beginning of the fiscal year (July-June), September 2021 and December 2021 targets are cumulative from July 2021, 2022 and 2023 targets are cumulative from the beginning of the calendar year.

[3] 2022 and 2023 floors shall be adjusted for deviations of investment spending, spending on COVID-19 vaccines and their administration, and budget support from the baseline (see TMU, ¶10).

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

[5] 2022 and 2023 ceillings shall be adjusted for the currency changeover costs covered by the GOL (see TMU, ¶17).

[6] 2022 and 2023 floors shall be adjusted for (i) the on-lending of the SDR allocation by the CBL to the GOL, (ii) deviations of banks' deposits of unfit US$ banknotes at the CBL from the baseline, (iii) deviations of the value of unfit US$ banknotes shipped to the Federal Reserve from the value credited to the CBL's account, (iv) deviations of the CCRT from the baseline, and (v) the savings (shortfall) from the GOL's transfers to the CBL to finance the currency changeover operations (see TMU, ¶22).

[7] 2022 and 2023 ceilings shall be adjusted for the on-lending of the SDR allocation by the CBL to the GOL (see TMU, ¶s 25 & 32).

[*] A waiver for the nonobservance of this PC was granted by the Board at the time of completion of the third ECF review. For additional information see Text Table 1 in the Staff Report.

Table 2. Liberia: Applicable Structural Benchmarks

		Target Date	Rationale	Status
	Public Financial Management and Governance			
1	Complete the inventory and rationalize bank accounts with the CBL and commercial banks, which will entail: (i) instruct MACs to close their bank accounts at commercial banks and transfer balances to the CBL (excluding donor funded projects, salaries funding accounts and revenue collection accounts); (ii) the CBL to set up bank accounts following the closure of MACs bank accounts and transfer of cash balances to the CBL by commercial banks; and (iii) supply a list of bank accounts that remain at commercial banks to IMF staff along with a rationale for their continued existence.	End-December 2021	Preparatory measure to prepare for eventual adoption of a treasury single account.	**Not met**, reformulated and reset for end-September 2022
2	Transfer all government accounts to the CBL and establish the account structure at the CBL.	End-March 2022	Establishment of an effective Treasury Single Account.	**Not met**, reformulated and reset for end-December 2022
3	Submit the audit report for the FY2019/20 budget to the Legislature.	End-November 2021	Improve fiscal transparency and accountability.	**Not met, converted to prior action for fourth ECF Review**
4	Government to issue a circular to mandate that government contracts need to be accompanied by IFMIS-generated purchase orders to be valid.	End-December 2021	Prevent emergence of arrears.	**Not met, implemented with delay**
	Domestic Revenue Mobilization			
5	Government (i) to prepare and annex to the CY2023 budget a full tax expenditure report and (ii) to draw up a list of concrete measures to streamline exemptions.	End-June 2022	Transparency in granting exemptions and revenue mobilization.	**Not me,** reformulated and reset for end-October 2022
	Internal Controls of the CBL			
6	Enhance reporting practices on foreign exchange withdrawals through semi-annual external audits on the foreign exchange reserves of the CBL.	Within six weeks after every six months starting from 2020		**Not met, implemented with delay**

Table 2. Liberia: Applicable Structural Benchmarks (continued)

		Target Date	Rationale	Status
7	Enhance reporting practices on foreign exchange withdrawals through compilation of reports on foreign exchange withdrawals from the CBL and timely submission of these reports to the BoG monthly.	Starting with the report for November 2020	Enhance internal controls.	**Met**
8	In line with the Enterprise Risk Management Policy, submit quarterly compliance reports to BoG with details of deviations from CBL's policies and procedures, as well as stated regulatory requirements.	30 days after each quarter beginning for 2022 Q1	Improve compliance with policies and regulations.	**Not met**, reset for 2022 Q4
	Banking Supervision			
9	Submit to the Legislature amendments to the Financial Institutions Act (FIA) of 1999 that seek to anchor the comprehensive resolution regime (CRR) in legislation and provide the CBL with a broad range of powers for dealing with distressed banks. In addition, the revised FIA will include legal provisions to enable the CBL to impose additional liquidity buffers set at the level of the individual banks.	End-February 2022	Improve financial sector stability.	**Not met**, reset for end-September 2022
10	Approve operational guidelines, policies, and manuals needed for the effective functioning of the CCR.	End-April 2022	Improve financial sector stability.	**Not met**, reset for end-January 2023
11	Issue the Risk-Based Supervision (RBS) Guideline in accordance with IMF TA recommendations.	End-April 2022	Improve financial sector stability.	**Not met**, reset for end-September 2022
12	Establish an organizational unit that is tasked with the development and execution of effective resolution strategies for financial institutions under the CRR. This unit will ensure that emergency liquidity assistance (ELA) and CRR operating frameworks remain effective in providing a backstop for any emergent weaknesses in the financial sector.	End-May 2022	Improve financial sector stability.	**Not met**, reformulated and reset for end-March 2023
	Cash Currency Management			
13	Develop a methodology for forecasting future demand for bank notes by denomination, including by setting benchmark stocks against which to measure the risk of currency shortage.	End-June 2021	Improve cash currency management.	**Met**
14	Destroy unfit notes to create space in the operational vaults, mitigate risks, and better and more accurately reflect circulation figures.	End-November 2021	Improve cash currency management.	**Not met, implemented with delay**
15	Set up a dual control security strategy. One example may be by implementing two door lock-system.	End-December 2021	Improve cash currency management.	**Not met, implemented with delay**

Table 2. Liberia: Applicable Structural Benchmarks (concluded)

		Target Date	Rationale	Status
	Strengthen Anti-Corruption Measures			
16	Legislature to adopt the Whistleblower and Witness Protection Act to provide effective protection from potential retaliation for reporting persons, witnesses, and victims in accordance with the UNCAC and best international practices.	End-January 2022	Improve governance and reduce corruption vulnerabilities.	**Not met, converted to prior action for fourth ECF Review**
17	Legislature to adopt the Liberia Anti-Corruption Commission (LACC) Act and amendments to the Code of Conduct. The draft LACC Act grants the LACC first-tier prosecutorial powers and puts it in charge of running the asset declaration regime for senior public officials, including authority to recommend sanctions for non-compliance. The amended Code of Conduct allows for access to declarations by court order, with rulings guided by the Freedom of Information Act and other pertinent legislation.	End-January 2022	Improve governance and reduce corruption vulnerabilities.	**Not met, converted to prior action for fourth ECF Review**
	Improving the Business Environment			
18	Designate overall responsibility for business climate improvements within government and establish a log frame with concrete priority actions, milestones, and entities in charge of implementation.	End-March 2022	Promoted private sector development.	**Not met**, reformulated and reset for end-December 2022

Table 3. Liberia: Prior Actions for Fourth ECF Review, 2022

		Rationale	Status
	Public Finances		
1	Submit a supplementary 2022 budget to the Legislature with central government spending (excluding debt service) of no more than US$741 million, of which at least US$72 million will go toward public investment, implying a deficit of US$94 million.	Safeguard budget discipline.	Done
2	Submit the audit report for the FY2019/20 budget to the Legislature.	Improve fiscal transparency and accountability.	Done
	Governance		
3	(i) Legislature to adopt the Whistleblower and Witness Protection Act to provide effective protection from potential retaliation for reporting persons, witnesses, and victims in accordance with the UNCAC and best international practices. and (ii) Legislature to adopt the Liberia Anti-Corruption Commission (LACC) Act and amendments to the Code of Conduct. The LACC Act grants the LACC prosecutorial powers; puts the LACC in charge of running the asset declaration regime for senior public officials, including authority to recommend sanctions for non-compliance; and enhances the selection process for LACC commissions by an independent section committee that compiles a shortlist from which the President picks a candidate for Senate confirmation. The amended Code of Conduct allows for access to declarations by court order, with rulings guided by the Freedom of Information Act and other pertinent legislation.	Strengthen the governance framework.	Done
	Financial Sector		
4	Appointment of a new CEO at LBDI.	Safeguarding financial sector stability.	Done

Table 4. Liberia: Structural Benchmarks, September 2022 – June 2023

		Target Date	Rationale	Status/Note
1	Issue the Risk-Based Supervision (RBS) Guideline in accordance with IMF TA recommendations.	End-September 2022	Improve financial sector stability.	**Underway**, reset from end-April 2022.
2	Close all accounts of MACs at commercial banks and transfer the balances to the CBL by end-August, if necessary, per order of the Minister of Finance and Development Planning, except donor-project accounts and 45 other accounts pertaining to institutions that operate in regions of the country where the CBL has limited presence and to support regional fiscal decentralization	End-September 2022	Establishment of an effective TSA.	**Underway**, reformulated and reset from end-December 2021.
3	Submit to the Legislature amendments to the Financial Institutions Act (FIA) of 1999 that seek to anchor the comprehensive resolution regime (CRR) in legislation and provide the CBL with a broad range of powers for dealing with distressed banks. In addition, the revised FIA will include legal provisions to enable the CBL to impose additional liquidity buffers set at the level of the individual banks.	End-September 2022	Improve financial sector stability	**Underway**, reset from end-February 2022.
4	Submit the audit report for the FY2020/21 budget to the Legislature.	End-September 2022	Increase fiscal transparency	**Proposed**
5	Cabinet adoption of a comprehensive reform action plan for LEC validated by pertinent development partners	End-October 2022	Improve public service provision	**Underway**
6	MFDP and CBL to finalize the TSA's account structure in consultation with IMF technical experts and guided by the concept note.	End-October 2022	Establishment of an effective Treasury Single Account.	**Underway**, reformulated and reset from end-March 2022.
7	Adopt a package of tax exemptions with a revenue yield of at least US$15 million in 2023 by end-September 2022. Adoption means issuing pertinent directives, circulars, or regulation and, in case legislative action is needed, approving draft legislation in cabinet.	End-October 2022	Domestic revenue mobilization	**Underway**, reformulated and reset from end-June 2021.
8	The MFDP to establish in consultation with IMF staff an implementation plan with concrete actions, milestones, and responsibilities to improve Liberia's business climate in the following three areas: (i) trading across borders; (ii) registering a business, and (iii) enforcing contracts.	End-December 2022	Promote private sector development.	**Underway**, reformulated and reset from end-March 2022.

Table 4. Liberia: Structural Benchmarks, September 2022 – June 2023 (concluded)				
		Target Date	**Rationale**	**Status/Note**
9	Approve operational guidelines, policies, and manuals needed for the effective functioning of the CCR.	End-January 2023	Improve financial sector stability.	**Underway**, awaits adoption of FIA. Reset from end-April 2022.
10	CBL management to assign specialized staff tasked with the development and execution of effective resolution strategies for financial institutions under the CRR. This unit will ensure that emergency liquidity assistance (ELA) and CRR operating frameworks remain effective in providing a backstop for any emergent weaknesses in the financial sector.	End-March 2023	Improve financial sector stability.	**Underway**, awaits adoption of FIA. Reformulated and reset from end-May 2022.
11	Commence conducting the auctions for CBL bills at a variable rate tender.	End-June 2023	Enhance monetary policy effectiveness	**Proposed**

Table 5. Liberia: Recurrent Structural Benchmarks

		Frequency	Rationale	Status
1	Enhance reporting practices on foreign exchange withdrawals through compilation of reports on foreign exchange withdrawals from the CBL and timely submission of these reports to the BoG monthly.	Monthly	Enhance internal controls.	**Ongoing**, reports through December 2021 submitted.
2	In line with the Enterprise Risk Management Policy, submit quarterly compliance reports to BoG with details of deviations from CBL's policies and procedures, as well as stated regulatory requirements.	Quarterly (from 2022Q4 with 30-day lag)	Improve compliance with policies and regulations.	**In progress**, submission of initial report reset from 2022Q1.
3	Enhance reporting practices on foreign exchange withdrawals through semi-annual external audits on the foreign exchange reserves of the CBL.	Semiannually (with six-week lag)		**Ongoing**, report for 2021H2 under preparation.

Attachment II. Technical Memorandum of Understanding

A. Introduction

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

B. Program Exchange Rates

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

Table 1. Liberia: Program Exchange Rates

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

C. Definitions

Quantitative Performance Criteria (QPC)

3. For the purpose of the program, the *Government* is defined as the budgetary central government of Liberia (GoL). It excludes extrabudgetary units of the central government, public nonfinancial corporations, public financial corporations, social security funds, and local government. The operations of the budgetary central government will be presented in U.S. dollars with all revenues and expenditures that are denominated in Liberian dollars converted at the period average exchange rate.

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

5. The revenue collection of the budgetary central government includes all tax and non-tax receipts transferred into the GOL revenue accounts at the CBL for the relevant fiscal year, including income and transfers from state-owned enterprises and public institutions, as well as budget support loans and grants. Tax revenue includes taxes on income, profits, capital gains, goods and services, international trade, and other taxes (including property tax and social contribution by foreign concessions). Non-tax revenue includes property income (dividends and interest income, royalty and rent, and assets sales), administrative fees, fines, penalties and forfeits, as well as other non-tax revenue (voluntary transfers and other grants, sales of other goods and services, withholding on other payments by government (non-resident), and taxes on financial and capital transactions. External loans and grants for off-budget projects managed by the budgetary central government are excluded unless otherwise stated. Revenues retained by government agencies to fund their operations and not appropriated in the budget shall not be considered revenue for program purposes. For the purposes of the program, revenue is measured in U.S. dollars, with GOL revenue account receipts in Liberian dollars converted to U.S. dollars using the period average exchange rate.

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

7. The definition of *public external debt* (both concessional and non-concessional), for the purposes of the program, refers to the debt of the central government (as defined in paragraph 3) owed to non-residents, and it applies not only to the meaning set forth in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 16919-(20/103), adopted October 28, 2020, but also to commitments contracted or guaranteed for which value has not been received. External debt is considered as contracted for program monitoring purposes once all conditions for its entrance into effect have been met, including ratification, if required. External debt is considered guaranteed when all the conditions for entry into effect, including ratification, have been met for both external debt and the guarantee.

8. Program performance will be assessed against the following quantitative performance criteria:

- Primary fiscal balance excluding grants (floor),
- New arrears on public external debt (ceiling),
- New non-concessional public external debt contracted or guaranteed (ceiling) (IT for end-December 2021 and end-June 2022; thereafter discontinued),
- Present value of new public and publicly guaranteed external debt contracted (ceiling) (applies from end-September 2022),
- CBL's operational and capital expenditure (ceiling),
- CBL's net international reserves (floor), and
- CBL's gross direct credit to government (ceiling).

Primary Fiscal Balance Excluding Grants

9. A floor applies to the cumulative flow of the primary fiscal balance excluding grants since the beginning of the fiscal year, which runs from July to December 2021 for the special budget, and January to December thereafter. The primary fiscal balance relates to revenue and expenditure of the budgetary central government (as defined in paragraph 4). For the purpose of monitoring the program and QPCs, the focus is on on-budget operations only, and the primary balance used is defined as being equal to the difference between revenue, excluding budget-support grants and loans, and expenditure net of interest payments (including on-budget gross investment in nonfinancial assets). Revenue is defined as all revenue collected by the LRA. Expenditure is measured on a commitment basis. For non-payroll expenditures, commitment happens when a purchase order is issued. A future obligation to pay is subject to fulfillment of a contract or service delivery and thus is distinguished from commitment. For payroll expenditure, commitment is when the payment is approved. The primary fiscal balance used for the debt sustainability analysis is calculated using revenue and expenditure of the budgetary central government including budget support grants and off-budget transactions related to donor support.

10. Adjustor: If the sum of cumulative budget support grants and concessional budget support loans received up to the relevant quarter in the budget for July-December 2021 and for the calendar year thereafter exceeds the amounts stated in Table 2 below, the floor for the primary fiscal balance excluding grants in that quarter will be adjusted downward by the amount of the excess. The criteria in paragraph 13 will be used to determine whether a loan is concessional or non-concessional. If part of expenditure were for capital injection that are consistent with the financial sector reform plan adopted by the CBL Board in consultation with Fund staff, the floor for the primary fiscal balance excluding grants in that quarter will be adjusted downward by that amount. The 2022 and 2023 floors shall be adjusted up by the sum of shortfalls in investment spending and shortfalls in spending on COVID-19 vaccines and their administration. This adjustor shall not be negative and be capped at US$80 million for 2022 and US$20 million for 2023. Shortfalls are relative to reference values shown as in Table 2.

Table 2. Liberia: Adjustor to the Primary Balance Excluding Grants, 2021Q2-2023Q2 (Millions of U.S. dollars, Cumulative)									
	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2024 Q2
Budget support	46.0	46.0	46.0	0.0	0.0	55.0	80.0	0.0	20.0
Investment Spending				2.6	36.1	37.0	54.0	4.0	12.0
COVID-19 vaccine and administration				0.0	1.5	3.0	4.4	0.0	0.0

New Arrears on Public External Debt

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

New Non-Concessional Public External Debt Contracted or Guaranteed

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

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

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

Present Value of New Public and Publicly Guaranteed External Debt Contracted

15. A ceiling applies to the present value (PV) of all new external debt contracted or guaranteed by the public sector, including commitments contracted or guaranteed for which no value has been received. Public external debt is defined in paragraph 7. The PV of new external debt is calculated using the IMF "DSA template" based on the amount of the loan, projected disbursements, the maturity, grace period, payment schedule, and fees. All projected disbursements and stream of debt service payments are discounted using a program discount rate of 5 percent.

CBL's Operational and Capital Expenditure

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

17. Adjustor: The ceiling shall be adjusted up by the amount of spending on the currency changeover, in excess of the CBL's own budget on the currency changeover (Table 3) up to the amount transferred from the GOL to cover currency-changeover costs. For 2022, this cap comprises the transfers in 2022 up to the respective target date plus US$4.0 million (the amount transferred but not spent in 2021). For 2023, this cap comprises the transfers in 2023 up to the respective target date plus US$4.0 million plus the difference between the transfers in 2022 and the amount spend on the currency changeover in excess of the CBL' own resources for the currency changeover during 2022.

Table 3. Liberia: Adjustor to the CBL's Operational and Capital Expenditure, 2022Q3–2023Q2
(Millions of U.S. dollars, Cumulative)

	2022Q3	2022Q4	2023Q1	2023Q2
CBL's own budget on the currency changeover	7.1	7.1	3.1	3.1

CBL's Net International Reserves

18. *Net international reserves* of the CBL are defined as the difference between gross official reserve assets and gross reserve liabilities. The net foreign exchange position of the CBL is presented in U.S. dollars. Assets and liabilities denominated in SDRs are valued at a fixed rate of the U.S. dollar against SDR at the program exchange rate (Table 1). Other currencies are valued at cross rates against the U.S. dollar using the program exchange rates (Table 1).

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

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

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

22. Adjustor to the QPC on the floor on the change in NIR. The QPC floor on the change in NIR shall be adjusted down by the difference between the value of unfit U.S. dollar banknotes shipped to the Federal Reserve and the value credited to the CBL's account. The QPC floor on the change in NIR shall be adjusted up (down) if banks' actual deposits of unfit U.S. dollar banknotes at the CBL are less (greater) than the projections in Table 4. The QPC on NIR shall be adjusted up (down) by the amount of the debt relief provided under the CCRT above (below) the projections specified in Table 4, converted to U.S. dollar at the program exchange rate. The 2022 and 2023 floors shall be adjusted down by the amount of foreign currency on-lending by the CBL to the GOL of the SDR allocation. This adjustor shall be capped at US$80 million for 2022 and US$20 million for 2023. The QPC floor on the change in NIR shall be adjusted up (down) by the savings (shortfall) from the GOL's transfers to the CBL to finance the currency changeover operations. The savings (shortfall) shall be defined as the amount by which the actual GOL's transfers, meant to finance the currency changeover operations, is greater (less) than the actual spending on the currency changeover operations in excess of the CBL's own budget on the currency changeover operations as set out in Table 3 above.

Table 4. Liberia: Adjustor to the Floor on NIR, June 2021 – June 2023
(Millions of U.S. dollars)

	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2
CCRT*	15.8	15.8	20.1	11.0	11.0	11.0	11.0	0.0	0.0
Deposits of unfit US$ banknotes by banks*	3.0	3.9	5.1	1.3	3.8	4.8	6.0	1.6	3.3

*Cumulative from beginning of year.

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

CBL's Gross Direct Credit to Government

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

25. Adjustment to the QPC on the ceiling on the CBL's gross direct credit to government. The ceilings shall be adjusted up by the amount of the SDR allocation on-lent by the CBL to the GOL. The adjustor shall be capped at US$80 million for 2022 and US$20 million for 2023.

Indicative Targets

26. The program sets indicative targets with respect to the following:

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

Total Revenue Collection of the Budgetary Central Government

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

New Domestic Arrears/Payables of the Budgetary Central Government

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

- *Payment to commercial contractors for provision of goods and services or fixed assets*: expenditure is considered to be in arrears when "cash expenditure" is lower than "IFMIS expenditure" in expenditure code 22 (goods and services), code 23 (consumption of fixed capital) and code 31 (capital expenditures) reported in the final reconciled ECF report of the corresponding fiscal year. A processing period cannot be more than 90 days from the end of the fiscal year.

- *Payment of interest or principal on government debt*: expenditure falls into arrears as soon as the scheduled date for payment has passed (subject to any applicable grace period).

Social and Other Priority Spending

29. Social spending is defined as education, health, and social development services. Education, health, and social spending consist of the cumulative payments from July to December 2021 for the special budget, and January to December thereafter of the units listed in Table 5 (payment vouchers approved by the Ministry of Finance and Development Planning).

Table 5. Liberia: Social and Other Priority Spending

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

On-Budget Investment Spending

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

Net Domestic Assets of the CBL

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

- *Monetary base* expressed in U.S. dollars is defined as monetary base expressed in Liberian dollars divided by the Liberian dollar/USD exchange rate.
- *Monetary base* expressed in Liberian dollars is defined as the stock of Liberian dollars in circulation (including vault cash of ODCs in Liberian dollars) plus reserve deposits of ODCs at the CBL in both Liberian dollars and U.S. dollars.
- The *net foreign assets* of the CBL are expressed in U.S. dollars and are defined as foreign assets of the CBL minus foreign liabilities of the CBL.
- *Foreign assets* of the CBL are defined as the sum of *gross reserves* (defined in paragraph 19) and *other foreign assets*. Other foreign assets include but not limited to foreign currency trade credit/advances of non-resident.
- *Foreign liabilities* of the CBL are defined as the sum of *short-term foreign liabilities* and *other foreign liabilities*. Short-term foreign liabilities include but are not limited to the use of Fund credit and loans. Other foreign liabilities include but are not limited to other foreign currency loans to nonresidents and SDR allocation.

32. Adjustment to the indicative target on the ceiling on the net domestic assets of the CBL. The ceilings shall be adjusted up by the amount of the SDR allocation on-lent by the CBL to the GOL. The adjustor shall be capped at US$80 million for 2022 and US$20 million for 2023.

D. Data Reporting

33. To allow monitoring of developments under the program, the Ministry of Finance and Development Planning and the CBL will coordinate and regularly report the information requested in Tables 6-8, below, to the staff of the IMF.

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

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

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

Table 6. Liberia: Data Reporting Requirements for Program Monitoring			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
MFDP	The report on the status of implementation of the performance criteria and structural benchmarks specified in [Tables 1, 2, and 4] of the MEFP	Monthly	Within three weeks after the end of the month
	Fiscal		
MFDP	Monthly fiscal reconciliation reports, where cash revenue and expenditure with spending commitments are reconciled	Monthly	Within three weeks after the end of the month
LRA	Daily LRA unreconciled revenue performance report	Daily	Within three days
MFDP	Detailed reports on monthly revenue and expenditure on both a cash and a commitment basis by budget line and a completed summary table on central government operations	Monthly	Within three weeks after the end of the month
MFDP	A detailed report on disbursements of budget support, grants and budgeted and off-budget loans, by donor and by project	Monthly	Within three weeks after the end of the month
MFDP	A detailed report on monthly social spending lines monitored for the program purpose on commitment and cash basis	Monthly	Within three weeks after the end of the month
MFDP	A table providing the end-of-period stock of domestic arrears accumulated and payments made on arrears during the program period, by budget category (wages, goods and services, etc.), including payment and stock of existing arrears from the previous ECF Arrangement	Monthly	Within three weeks after the end of the month
MFDP	Outstanding appropriations, allotments and commitments, and disbursements for line ministries and agencies	Monthly	Within three weeks after the end of the month
MFDP	Weekly cash plan report detailing: i) weekly revenue and expenditure cash flows, including opening balance of revenue account, cash inflows, cash outflows, sources of financing, surplus/deficit, outstanding checks, and net of closing bank balance and outstanding checks; ii) monthly cash plan for the remaining of the fiscal year	Weekly	Within five days after the end of the week
MFDP	Weekly fiscal report detailing: i) summary of budget expenditure on allotment, commitment, cash basis, and liabilities by economic code; ii) detailed budget execution; iii) cumulative revenue and expenditure by currency; iv) expenditure by Ministries and Agencies	Weekly	Within five days after the end of the week

Table 6. Liberia: Data Reporting Requirements for Program Monitoring (continued)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
CBL	Monthly sweeping reports showing the end of the month balances of the GoL accounts at the CBL and of all operations and other accounts at the CBL of the M&As	Monthly	Within three weeks after the end of the month
CBL	The CBL's claims on and liabilities to Central Government by account: i.e., end-of-month balances of all operating and other accounts at the CBL of the line ministries and agencies receiving budgetary appropriations	Monthly	Within three weeks after the end of the month
CBL	The CBL's claims on and liabilities to Public Nonfinancial Corporations by account: i.e., end-of-month balances of all operating and other accounts at the CBL of all public nonfinancial corporations	Monthly	Within three weeks after the end of the month
MFDP	Quarterly reports of state-owned enterprise financial operations submitted to the Ministry of Finance and Development Planning	Quarterly	Within 45 days after the end of the quarter
Balance of Payments and Public External Debt			
CBL	Export volumes and values by major commodity, import values by standard international trade classification (SITC), import volumes of rice (by commercial and noncommercial use) and petroleum products	Monthly	Within three weeks after the end of the month
CBL	Remittance flows for money transfer operators (MTOs) and commercial bank wire. Data to be reported as gross inflows and gross outflows for each component.	Monthly	Within three weeks after the end of the month
MFDP	The amount of new external debt contracted or guaranteed by the Government, as well as projects in the pipeline or cancelled	Monthly	Within three weeks after the end of the month
MFDP	The amount of new domestic debt contracted or guaranteed by the Government	Monthly	Within three weeks after the end of the month
MFDP	A detailed report on monthly disbursement of external debt by loan, category and creditors; and distinguishing between loan and grant components in cases of projects with mixed funding modalities	Monthly	Within three weeks after the end of the month
MFDP	A detailed report on monthly payments of interest and principal on external debt by loan instrument, category and creditors and the stock of external debt.	Monthly	Within three weeks after the end of the month

Table 6. Liberia: Data Reporting Requirements for Program Monitoring (continued)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
MFDP	Detailed report of debt service due date and actual payment date throughout the corresponding fiscal year by loan instrument and creditor.	Monthly	Within three weeks after the end of the month
MFDP	A detailed report on monthly payments on domestic debt by category and the domestic debt stock	Monthly	Within three weeks after the end of the month
Monetary and Exchange Rate			
CBL	The end-of-month balance sheet of the CBL (1SR) and the Central Bank Survey (1SG)	Monthly	Within three weeks after the end of the month
CBL	The end-of-month balance sheet of the other depository corporations (ODCs) (2SR) and the Other Depository Corporations Survey (2SG)	Monthly	Within three weeks after the end of the month
CBL	The Depository Corporations Survey (3SG)	Monthly	Within three weeks after the end of the month
CBL	CBL cash and budget weekly outturn relative to forecast following the template provided below (Table 7)	Weekly	Within five days after the end of the week
CBL	CBL commitment-based budget monthly outturn relative to forecast following the template provided below (Table 8)	Monthly	Within three weeks after the end of the month
CBL	A full set of monthly Financial Soundness Indicators (FSIs) regularly calculated by the CBL, including capital adequacy, profitability and liquidity ratio.	Monthly	Within three weeks after the end of the month
CBL	The income statements of ODCs as reported to the CBL	Monthly	Within three weeks after the end of the month
CBL	The detailed table of commercial banks' loans and advances by sector	Monthly	Within three weeks after the end of the month
Foreign Exchange and Reserve Assets			
CBL	Daily reporting of net international reserves and components: gross foreign assets (vault cash, balances with overseas correspondent banks), ODCs' current account in foreign currency, the Government's FX deposits, mutes in vault and transit, operational tellers accounts,	Weekly	Within five days after the end of the week

Table 6. Liberia: Data Reporting Requirements for Program Monitoring (continued)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
CBL	Daily reporting of gross foreign exchange inflows and outflows and their components: inflows to GOL accounts (revenue accounts, off-budget revenue accounts, clearing accounts); inflows to ODC accounts by types of transactions (final, interbank, clearing / settlement and others); inflows to CBL accounts (interest income, surrender purchases, FX interventions, other inflows); outflows from GOL accounts (on-budget expenditure, off-budget expenditure, clearing accounts); outflows from ODC accounts (withdrawals, clearing, and others); and outflows from CBL accounts (recurrent payments, other payments, FX interventions). Daily reporting of other memo items: total inbound remittances through MTOs, the exchange rate for surrender purchases, published indicative buying and selling rates.	Weekly	Within five days after the end of the week
CBL	Daily foreign exchange transactional level data	Weekly	Within five days after the end of the week
CBL	Internal Audit Department (IAD)'s verification report on foreign exchange (random check on the accuracy of the daily data at least five times a month, plus on the last day of each month)	Monthly	Within five days after the end of the month
CBL	Daily reporting for monetary operations and accounts of the ODCs at the CBL: Standing Deposit Facility (SDF) (outstanding, requested, recalls, SDF interest rate); Standing Credit Facility (SCF) (outstanding, SCF interest rate); CBL bills (outstanding, maturing, and the amount, tenor and average interest rate of new CBL bill issuances); ODC accounts at the CBL (the average reserve maintenance period (RMP), reserve requirement for RMP, and excess reserves in foreign currency and those in local currency); and currency in circulation (CIC) (currency issuance, currency redemption, USD withdrawal, USD deposit).	Weekly	Within five days after the end of the week
CBL	CBL FX auctions summary of bids and bidders, including data on: number of participants (commercial banks and clients); maximum bid rate and volume; minimum bid rate and volume; average bid rate; largest transaction size (client and commercial bank); smallest transaction size (client and commercial bank)	Weekly	Within five days after the end of the week

Table 6. Liberia: Data Reporting Requirements for Program Monitoring (concluded)			
Reporting Agency	**Table/Report**	**Frequency**	**Timing**
CBL	Amounts offered, demanded and placed in Government of Liberia Treasury bill/ Treasury bond auctions; including minimum bid rate and amount, maximum bid rate and amount, and weighted average bid rates.	Monthly	Within one week after the end of month
CBL	Interest rates: average monthly interest rates on loans and deposits	Monthly	Within three weeks after the end of month
CBL	A detailed report on liquidity forecasting up to 6 months ahead, including: (i) projected government's cash flows (revenue, expenditure, repayments and disbursements of loans including T-bills) by currency; (ii) projected flows to the CBL's net exchange position, including but not limited to planned U.S. dollar sales in the foreign exchange auction, and planned foreign exchange transactions with the Government; and (iii) projected flows of Liberian dollar liquidity, including but not limited to planned CBL Notes issuance	Monthly	Within three weeks after the end of month
	Real		
CBL	Production data in value and volume	Quarterly	Within six weeks after the end of the quarter

Table 7. Liberia: Reporting Requirements for the CBL's Cash Budget (Template)

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

Table 8. Liberia: Reporting Requirements for the CBL's Cash Budget (Template)

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

INTERNATIONAL MONETARY FUND

LIBERIA

August 8, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND FOURTH REVIEW OF THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND REPHASING OF ACCESS—DEBT SUSTAINABILITY ANALYSIS

Approved By
Montfort Mlachila and Gavin Gray (IMF), Marcello Estevão and Abebe Adugna (IDA)

Prepared by the International Monetary Fund and the International Development Association.[1]

Liberia: Joint Bank-Fund Debt Sustainability Analysis[2]	
Risk of external debt distress	*Moderate*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Limited space to absorb shocks*
Application of judgment	*No*

The Debt Sustainability Analysis (DSA) assesses Liberia at moderate risk of external debt and high risk of overall public debt distress with limited space to accommodate shocks. Staff judges public debt to be sustainable. More than 90 percent of external debt is on highly concessional terms and held by multilateral lenders. The bulk of domestic debt is owed to the Central Bank of Liberia (CBL) at favorable terms (interest rate of 4 percent with principal repayments starting in 2029). The breach of the threshold for the present value (PV) of public debt relative to GDP is small and projected to end in 2026. Total debt distress risk would then become moderate. To keep debt distress vulnerabilities contained, it will be important that the authorities maintain prudent fiscal policy that keeps the deficit at 3-4 percent of GDP and prioritize concessional financing. Shocks to the real economic growth rate, exports, or several parameters at once are the main downside risks to debt sustainability.

[1]Debt coverage has remained the same as in the previous DSA.

[2]Liberia's debt-carrying capacity based on the Composite Indicator (CI), which is based on the October 2021 WEO data and the 2020 Country Policy and Institutional Assessment (CPIA), is assessed as weak. The CI score is 2.72 which points to medium CI ranking. However, to change the debt carrying capacity to medium two consecutive signals are needed.

PUBLIC DEBT COVERAGE

1. **The DSA includes central government debt, central government guaranteed debt, and central bank debt contracted on behalf of the government** (Text Table 1).[3]

- The external and the domestic debt of the central government is fully covered in the DSA. The external debt includes US$1,191 million debt to multilateral lenders, US$62 million debt to bilateral lenders, and US$51 million debt to commercial lenders. The domestic debt mostly consists of US$382 million in government borrowing from the CBL and US$49 million in sovereign bonds held by commercial banks. Both reflect legacy debt that was restructured, securitized, and fully recognized in 2019.[4] In addition, banks hold local currency government bonds equivalent to US$48 million that the government issued to finance budget over time.

- The bulk of State-Owned Enterprise (SOE) debt is guaranteed by the government or reflects funds borrowed externally by the government and on-lent to SOEs and as such is captured by the DSA. Liberian SOEs are unable to secure external funding without government guarantees. However, there could be SOE debt owed to domestic banks that escapes the DSA. The government is making efforts to improve SOE debt transparency. The Quarterly Debt Management Report includes detailed information on SOE debt,[5] guaranteed and non-guaranteed, direct and on-lent.

Text Table 1. Coverage of Public Sector Debt

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

Public debt coverage and the magnitude of the contingent liability tailored stress test

		Default	Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
2	Other elements of the general government not captured in 1.	0.5 percent of GDP	0.5	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4	PPP	35 percent of PPP stock	12.70	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		20.2	

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

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

[4]The stock of domestic debt to the CBL has declined from US$487 million in the last DSA after removing old IMF loans, that are also included in the external debt, from this consolidated debt of the government to the CBL.

[5]In May 2022, the Government published its Quarterly Debt Management Report for the quarter ending December 31, 2021, with coverage of detailed debt data (on-lent, guaranteed and non-guaranteed) reported by 12 SOEs representing 95 percent of SOE consolidated liabilities by end December 2021, as part of the SDFP PPAs for FY22. The report includes the information on issuance dates, maturity dates, interest rates, issuance currency, disbursed amounts, repaid principals, and current stocks are provided for loans contracted with commercial banks and on-lent debt.

- The CBL debt is all external and is included in the DSA. The IMF credit to the CBL, amounting to US$280 million at end-2021, is captured and recorded as external debt, whether on-lent to the government or not. On-lent funds that are repaid by the CBL but not yet reimbursed by the government are recorded as domestic debt.

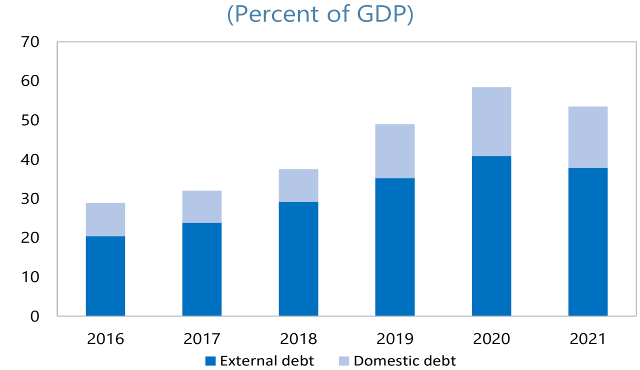
- Local governments have no access to external financing. Hence, it is only domestic borrowing by SOEs and local governments, as well as private sector external borrowing that escape the DSA. The amounts involved are deemed to be small.[6]

BACKGROUND

2. **This DSA is being conducted in the context of the 2022 Article IV consultation and the fourth review of the four-year arrangement under the ECF**. The last Low-Income Country DSA (LIC-DSF) was considered by the Executive Board in December 2020 as part of the combined first and second reviews of the ECF arrangement.[7] Liberia continues to be subject to the IDA Sustainable Development Finance Policy (SDFP) regardless of the risk of debt distress.

3. **In 2021, total public debt reached US$1,866 million (53.2 percent of GDP), up from US$1,781 million (58.7 percent of GDP) in 2020**. External borrowing accounted for most of the increase. Debt ratios nonetheless declined, reflecting a sharp rise of nominal GDP in U.S. dollar terms.[8] Debt accumulated rapidly after the completion of the HIPC initiative in 2010 as the government scaled up infrastructure spending and responded to a series of adverse shocks. Public debt increased strongly in 2019 and 2020, because of the recognition of the legacy debt.

Figure 1. Stock of Public Debt, 2016-21
(Percent of GDP)



Sources: Liberian authorities and IMF staff calculations.

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

[7]This DSA is prepared jointly by the staff of the IMF and the World Bank, in collaboration with the authorities of Liberia. The current DSA follows the revised Debt Sustainability Framework (DSF) for LICs and Guidance Note (2017) in effect as of July 1, 2018. The last joint DSA can be found in IMF Country Report No. 21/9, January 2021.

[8]In 2021, nominal GDP in U.S. dollar grew 15.5 percent, reflecting to a large extent a valuation effect in the wake of the strong real appreciation of the Liberian dollar.

4. The stock of external debt increased by 21.4 percent during the pandemic years 2020-21, while Liberia benefited at the same time from non-debt-creating international support. External debt increased from US$1,075 million to US$1,305 million between December 2019 and December 2021. This reflects US$124.7 million in borrowing from the IMF under the ECF arrangement and the RCF disbursement. Indebtedness to other multilateral lenders increased by US$176.1 million, with the World Bank accounting for US$139 million. Much other support from the international community did not create debt, notably relief of US$65 million under the IMF's CCRT,[9] US$353 million in general SDR allocation to Liberia, and US$55 million in grants from the World Bank. Liberia's external debt is projected to increase to 42.4 percent of GDP in 2024 and decline to 39.2 percent of GDP by 2042. Text Table 2 compares external debt stock at end-2020 in the DSA with the DRS data. The main source of difference between the two datasets is the treatment of debt to the IMF. The DRS includes the SDR allocation of 2009, but the DSA does not.

5. The stock of domestic debt increased by 5 percent in 2021 as domestic debt repayments offset most of the new domestic borrowing. Domestic debt increased by US$26.5 million in 2021 as the government issued US$12 million of short-term treasury bills and US$9 million of treasury bonds and recognized around US$25 million of old debt to a few domestic vehicle dealers and construction corporations, which was offset by servicing US$24.6 million of the USD-denominated bonds held by commercial banks and LD treasury bonds, reducing arrears by US$9 million (all arrears are domestic and account for less than 1 percent of GDP), and settling some government debt toward the National Social Security and Welfare Corporation (NASSCORP).

Text Table 2. Comparison of the External Debt in DSA and DRS Datasets

	DRS Data[1,2]	DSA Data	Difference[3]
	2020 (million USD)	2020 (million USD)	
External Debt	1,439	1,247	192
Bilateral	133	113	20
China	59	54	4
India	1	1	0
Kuwait	27	20	7
Saudi Arabia	45	37	8
Taiwan, Province of China	1	0	1
Multilateral	1,306	1,134	172
African Dev. Fund	146	178	-32
IDA	550	547	3
IMF	473	294	179
Intl Fund Arg (IFAD)	23	19	4
OPEC Fund for Intl Development	18	12	5
European Invest Bank	57	49	8
BADEA /ABEDA	31	27	5
ECOWAS / CEDEAO	2	2	0
African Export-Import Bank	7	0	7

1/2020 is the last year for which DRS data is available.

2/DRS only includes external debt data.

3/The main difference is because the DRS dataset includes the SDR allocation of 2009 in debt to IMF.

6. At end-2021, nearly two third of Liberia's debt was held by multilateral lenders (Text Table 3). The World Bank and the IMF are Liberia's two largest external creditors. At end-2021, the

[9]The DSA and macro-framework assume CCRT debt service relief through April 2022.

outstanding stock of debt to the World Bank and the IMF accounted for 32.5 percent and 14.9 percent of total public debt, respectively. Liberia's domestic debt is all held by residents. The CBL is the largest among them, holding 20.4 percent of total public debt. Total debt service in 2022 will amount to US$151 million of which nearly half is external debt service.

Text Table 3. Decomposition of Public Debt and Debt Service by Creditor, 2020-23[1]

	Debt Stock (end of period)						Debt Service							
	2020			2021			2020	2021	2022	2023	2020	2021	2022	2023
	million USD	Percent total debt	Percent GDP	million USD	Percent total debt	Percent GDP	million USD				Percent GDP			
Total	1781.5	100.0	58.7	1865.7	100.0	53.2	81.2	117.3	151.0	129.6	2.7	3.3	3.8	3.1
External	1246.9	70.0	41.1	1304.6	69.9	37.2	49.2	54.0	69.5	76.4	1.6	1.5	1.8	1.8
Multilateral creditors[3]	1134.2	63.7	37.3	1191.4	63.9	34.0	48.7	53.4	65.9	69.8	1.6	1.5	1.7	1.6
IMF	293.9	16.5	9.7	278.0	14.9	7.9	32.8	32.4	37.1	38.5	1.1	0.9	1.0	1.0
World Bank	546.7	30.7	18.0	606.9	32.5	17.3	4.5	7.6	13.6	18.6	0.1	0.2	0.4	0.5
ADB/AfDB/IADB	177.9	10.0	5.9	193.9	10.4	5.5								
Other Multilaterals	115.8	6.5	3.8	112.5	6.0	3.2								
o/w: European Investment Bank	49.3	2.8	0.9	45.6	2.4	0.8								
o/w: Arab Bank for Economic Development in Af	26.7	1.5	1.6	26.7	1.4	1.3								
list of additional large creditors[2]		0.0	0.0		0.0	0.0								
Bilateral Creditors	61.8	3.5	2.0	62.5	3.3	1.8	2.7	1.3	2.2	3.0	0.1	0.0	0.1	0.1
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: list largest two creditors		0.0	0.0		0.0	0.0								
o/w: list largest two creditors		0.0	0.0		0.0	0.0								
list of additional large creditors[2]		0.0	0.0		0.0	0.0								
Non-Paris Club	61.8	3.5	2.0	62.5	3.3	1.8	2.7	1.3	2.2	3.0	0.1	0.0	0.1	0.1
o/w: Saudia Arabia	36.9	2.1	1.2	37.0	2.0	1.1								
o/w: Kuwait	19.9	1.1	0.7	20.5	1.1	0.6								
list of additional large creditors[2]		0.0	0.0		0.0	0.0								
Bonds	0.0	0.0	0.0	0.0	0.0	0.0								
Commercial creditors	50.9	2.9	1.7	50.9	2.7	1.5	0.9	1.1	1.2	1.8	0.0	0.0	0.0	0.0
o/w: China EXIM	49.5	2.8	1.6	49.5	2.7	1.4								
o/w: India EXIM	1.4	0.1	0.0	1.4	0.1	0.0								
list of additional large creditors[2]		0.0	0.0		0.0	0.0								
Other international creditors		0.0	0.0		0.0	0.0								
o/w: list largest two creditors		0.0	0.0		0.0	0.0								
list of additional large creditors[2]		0.0	0.0		0.0	0.0								
Domestic	534.6	30.0	17.6	561.1	30.1	16.0	32.0	63.3	81.4	53.2	1.1	1.8	2.1	1.3
Held by residents, total	534.6	30.0	17.6	561.1	30.1	16.0	32.0	63.3	57.2	43.7	1.1	1.8	1.5	1.0
Held by non-residents, total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T-Bills	39.4	2.2	1.3	48.1	2.6	1.4	2.0	24.0	22.8	0.0	0.1	0.7	0.6	0.0
Bonds	437.5	24.6	14.4	442.8	23.7	12.6	23.2	26.5	26.5	30.1	0.8	0.8	0.7	0.7
Loans	57.8	3.2	1.9	70.1	3.8	2.0	6.8	12.8	7.9	13.6	0.2	0.4	0.2	0.3
Memo items:														
Collateralized debt[4]	0.0	0.0	0.0	0.0	0.0	0.0								
o/w: Related	0.0	0.0	0.0	0.0	0.0	0.0								
o/w: Unrelated	0.0	0.0	0.0	0.0	0.0	0.0								
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0								
o/w: Public guarantees	0.0	0.0	0.0	0.0	0.0	0.0								
o/w: Other explicit contingent liabilities[5]	0.0	0.0	0.0	0.0	0.0	0.0								
Nominal GDP	3037.2			3508.9										

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

2/ Individual creditors accounting for more than 5 percent of total debt.

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

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

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

MACROECONOMIC ASSUMPTIONS

7. **Macroeconomic assumptions are consistent with the baseline in the Staff Report and in line with recent economic developments and the government's policy commitments**. The DSA assumes that the government continues to adhere to prudent monetary and fiscal policies,

pushes forward with the implementation of its structural reform agenda, and refrains from monetary financing of the budget. On this basis, the key macroeconomic parameters are assumed to evolve as follows (Text Table 4):

Text Table 4. Underlying DSA Assumptions
(Percent)

	2022	2023	2024	2025	2026	2027-41
Real GDP Growth Rate						Average
First and Second Review	3.7	4.5	5.1	5.4	5.5	5.7
Current	3.7	4.7	5.7	5.7	5.5	5.1
Real GDP Growth Rate per Capita						Average
First and Second Review	1.6	2.3	2.8	2.8	3.0	3.3
Current	1.3	2.2	3.2	3.3	3.1	2.9
Current Account Balance						Average
First and Second Review	-22.6	-22.9	-21.8	-20.7	-19.1	-15.0
Current	-16.0	-15.3	-15.1	-14.9	-14.8	-13.4
Growth Rate of Exports of Goods and Service						Average
First and Second Review	6.4	3.1	5.2	5.2	9.2	6.5
Current[1]	7.9	3.0	8.1	6.5	5.6	5.6
Inflation						Average
First and Second Review	7.0	5.5	5.0	5.0	5.0	5.0
Current	7.8	8.7	5.2	5.0	5.0	5.0
Primary Fiscal Balance						Average
First and Second Review	-2.0	-1.2	-1.0	-1.5	-1.8	-1.8
Current	-4.0	-2.4	-2.6	-2.8	-2.8	-2.2

Sources: Liberian authorities; and IMF staff projections.
1. A recent large wave of investment in mining sector is projected to triple production and exports of iron ore in the next decade.

- After a 3 percent contraction in 2020 due to the COVID-19 pandemic, ***real GDP growth*** recovered to 5 percent in 2021, reflecting the lifting of lock-down measures, firmer commodity prices, strong mining sector activity, and favorable crops. This year, economic activity is likely to soften to 3.7 percent, reflecting the slowdown in the global economy and higher fuel and food prices in the wake of the war in Ukraine. This slowdown is however partially mitigated by fiscal policies. Projections for the medium- and long-term growth rates are little changed from the last DSA, but the pickup of growth is now less backloaded, reflecting better prospects for the mining sector in the next few years. The level of nominal GDP is higher, mainly due to the valuation effect from real exchange rate appreciation. Long term real GDP growth (2027-41) is projected at 5.0 percent—0.7 percentage-points below the projections in the previous DSA. The compared to a post-civil war average of 4.5 percent. IMF staff analysis indicates that Liberia's potential growth is closer to 5.5 percent.[10] Growth will be driven by rapid expansion in the labor force, continued accumulation of physical capital, and increased productivity. The stock of capital will grow from a low base, including for infrastructure in transport, energy, and telecommunication. The current reform agenda, such as greater access to market and electricity and improved macroeconomic management and business environment, will support productivity growth. Failure to bring total-factor-productivity-growth, which was low in recent years, back up to the post-civil-war average is the main risk to the growth outlook. This could happen if the streak of

[10]See Selected Issues Paper "Liberia's Growth Potential and How to Get There."

negative shocks in the last decade was repeated or if reforms to slowly improve education levels, improve the efficiency of public investment, and strengthen the business environment were to falter.

- The ***current account (CA) deficit*** has hovered around 18 percent of GDP in the last few years. It is projected to remain large in the medium-term and to narrow to 13.4 percent of GDP in the long term. The external sector assessment finds that Liberia's external position is substantially weaker than the level implied by fundamentals and desirable policies. Nonetheless, the CA deficit is expected to remain comfortably financed by non-debt-creating project grant and foreign direct investment (FDI) flows, as well as inexpensive donor loans.

- In 2021, ***exports of goods and services*** were significantly stronger than projected in the last DSA (US$1,121 million versus US$709 million) because of higher prices of exported commodities, such as gold and iron ore. The upcoming waves of investment in the mining sector explain the now more favorable prospects for exports growth. Imports of goods and services grew significantly in 2021 to nearly 57 percent of GDP and they are expected to remain elevated in the medium-term corresponding to the upcoming investment plans. In the long term, imports of goods and services are projected to hover around 42 percent of GDP.

- During 2021, ***inflation*** fell from 13.1 percent to 5.5 percent. It is projected to be moderately higher during 2022-23 and then converge to 5 percent.

- The ***fiscal balance*** of the budgetary central government improved from -3.8 percent to -2.4 percent of GDP in 2021 mainly due to a strong revenue performance. For 2022, is projected at -5.0 percent of GDP. In the medium term, it is programmed to improve to hover between -3.0 to -4.0 percent of GDP to stabilize public debt at prudent levels and to respect financing constraints. Government revenue and grants are projected to be around 24.2 percent of GDP in the medium-term and in the long-term as grants are expected to decline government revenue and grants will average at 22.4 percent of GDP.

- In 2021, the general SDR allocation almost doubled Liberia's hitherto feeble ***gross official reserves*** to US$700 million, or the equivalent of 4.2 months of imports. The authorities are committed to retain the reserve coverage at around 4 months of imports going forward to be able to withstand external shocks.

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

- ***External borrowing***. Liberia relies mostly on external borrowing to satisfy its public gross financing needs. US$1,244 million in new external borrowing is projected for 2022-26, corresponding to almost 73 percent of total new borrowing. The grant element is expected to decline from 55.7 percent in 2022 to 46.7 percent by 2042 as Liberia starts accessing non-concessional financing in the outer years.

Text Table 5. External Borrowing Assumptions
(Millions USD)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Multilateral	269	233	187	205	223	236	262	248	232	234
IMF	55	64	0	0	0	0	0	0	0	0
IDA	159	113	131	148	165	183	193	178	161	161
AfDB	35	36	37	37	38	33	40	40	41	42
Other multilaterals	20	20	20	20	20	20	29	30	30	31
Bilateral	10	10	10	10	10	11	11	11	12	12
of which: Paris club	0	0	0	0	0	0	0	0	0	0
of which: Non Paris club	10	10	10	10	10	11	11	11	12	12
Commercial	0	0	20	20	35	56	52	58	54	55

- ***Domestic borrowing***. During 2022-26, new domestic borrowing is expected to be around US$463 million, corresponding to 27.0 percent of total new borrowing. This includes US$100 million in on-lending of the 2021 SDR allocation by the CBL to the government. The mix between external and domestic borrowing is expected to shift toward domestic borrowing through the end of the horizon, as the government develops and deepens its domestic debt market and as financing provided by development partners does not keep pace with the expansion of the Liberian economy. Apart from the recourse to the SDR allocation, domestic borrowing is projected to be in the form of short- and medium-term foreign currency denominated bonds. Due to the shorter maturity of these bonds, more frequent roll-overs are needed which if do not materialize, the authorities need to seek more external borrowing. Text Table 6 summarizes the public borrowing plan of Liberia in the short-term.

Text Table 6. Summary of Public Borrowing Plan[1]
(millions USD)

	2022	2023	2024
Financing needs	340	319	336
o/w: Budget financing	53	40	40
o/w: Project financing	286	279	296
Financing sources	340	319	336
o/w: External[2]	247	232	241
o/w: Concessional	240	219	216
o/w: Non-concessional	7	13	25
o/w: Domestic[3]	93	87	96

1. the authorities are working on developing a borrowing plan. This table projects the loans that will be ratified each year based on a forward looking 3-year moving average of current disbursements.
2. All of the external borrowings are long-term.
3. Domestic borrowing includes use of SDR allocation in 2022 and 2023.

REALISM OF THE BASELINE ASSUMPTIONS

9. **The realism tools suggest that the baseline scenario is credible compared to Liberia's historical experience and cross-country experiences** (Figure 3).

- The current DSA projects external debt relative to GDP to rise from its current level of 38.8 percent to 47 percent in 2032 before gradually declining to 37.5 percent in 2042. This profile compares to a more downward sloping one with a considerably higher starting ratio of 46.2 percent in the previous DSA. The now lower starting ratio is due to the higher nominal GDP in 2022, as well as a somewhat lower nominal debt stock. This carries forward and real growth through 2023 is also expected to be somewhat stronger, meaning that nominal GDP is higher throughout.

- The stock of external debt is projected to grow faster now as the gained borrowing space is utilized to further Liberia's investment and development aspirations. Moreover, undisbursed amounts from IDA19 are assumed to be disbursed at 50 percent grants and 50 percent IDA regular credits. The disbursements under the new IDA20 allocation are assumed on credit terms. Compared to the 2016 DSA though, the downward revisions to real GDP growth, in the context of the Ebola epidemic, the commodity price shock, and the COVID-19 pandemic, mostly explain the higher debt ratios in the current and previous DSA vintages.

- The evolution of the total public debt-to-GDP ratio has a relatively flat profile, compared to a steeper one with a higher starting point in the previous DSA. While the starting point is higher—US$2,149 million compared to US$2,107 million—the higher nominal GDP results in a lower ratio. Decisive debt reduction is no longer needed with the freed-up resources better used to develop the Liberian economy.

- Historically, the CA deficit has been the major debt-creating flow. A high contribution of current account deficits to external debt accumulation and an equally large residual in the opposite direction are observed (Figure 3). The residual includes project grants (recorded in the capital account) and current transfers (remittances) that are not captured by the official statistics.

- The unexpected increases in PPG external and public debt in the past 5 years are about 11.5 and 18.3 percent of GDP, respectively, which are both above the median of the countries producing LIC DSF. They reflect primarily the Ebola epidemic and the commodity price shock during 2014-15 and the COVID-19 pandemic during 2020-21. The main driver of the unexpected increase in external debt was the current account deficit and the decline in growth and real exchange rate depreciation contributed to the unexpected public debt accumulation. However, the recognition of restructured and consolidated government debt to the CBL, captured in the residual, played the biggest role in the increase in public debt.

10. The improvement in the primary balance in the next three years is in line with historical data on LIC adjustment programs. The second DSF realism tool assesses the realism of the fiscal projection. Figure 5a highlights that the anticipated adjustment in the primary balance of -1.0 percentage points of GDP is in line with other LIC programs. The growth projection for 2022 is below the growth paths suggested by the fiscal multiplier realism tool because of lower external demand and the war in Ukraine. For the long term (2027-41), the primary deficit is projected to stabilize around 2.2 percent with domestic revenue including grants averaging 22.4 percent of the GDP.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

11. Liberia's debt-carrying capacity based on the Composite Indicator (CI) is assessed as weak (Text Table 6). The CI captures the impact of different factors through a weighted average of the World Bank's 2020 CPIA score, the country's real GDP growth, remittances, international reserves, and world growth. Liberia's debt-carrying capacity based on the CI, which is based on the October 2021 WEO and the 2020 CPIA, is assessed as weak.[11] The CI score is 2.72, compared to 2.5 in the previous DSA. In addition, Liberia remains assessed as "weak quality of debt monitoring" in line with the country's debt-recording capacity.

Text Table 7. Composite Index

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.973	1.14	42%
Real growth rate (in percent)	2.719	2.104	0.06	2%
Import coverage of reserves (in	4.052	30.922	1.25	46%
Import coverage of reserves^2 (in percent)	-3.990	9.562	-0.38	-14%
Remittances (in percent)	2.022	10.978	0.22	8%
World economic growth (in	13.520	3.137	0.42	16%
CI Score			2.72	100%
CI rating			Medium	

Text Table 8. Debt Carrying Capacity and Thresholds

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

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

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

[11] The CI score is not updated using April 2022 WEO data at this stage because the mission took place prior to the release of April 2022 WEO data and staff discussed the CI score based on October 2021 WEO with the authorities during the mission.

12. Standard scenarios stress tests and contingent liability tests are conducted and discussed below. The standardized stress tests apply the default settings, and the contingent liability stress test is based on the quantification of potential contingent liabilities (including SOE-related risks associated with non-guaranteed SOE debt).

EXTERNAL DSA

13. Liberia remains at moderate risk of external debt distress under the baseline scenario. Under the baseline scenario, all indicators remain below their corresponding thresholds in the medium to long term (Figure 1). Compared to the previous DSA, all four indicators show smaller ratios mainly because of the denominator effect. GDP and exports are projected to grow faster than previously envisaged owing to increased investment in the iron ore industry. Table 1 indicates that the debt ratio increases by less than what the current account, FDI, and economic growth suggest, giving rise to a residual. This is due to the sizable project grants that Liberia receives from donors, as well as remittances that may escape official statistics.

14. Standard stress tests show that a deterioration of the macroeconomic outlook might lead to the present value (PV) of external debt-to-GDP and PV of debt-to-exports ratios breaching their thresholds (Table 3). Some of the standard stress tests, namely, a shock to exports, other non-debt creating flows, a combination of all shocks, real GDP growth, primary balance, and combined contingent liabilities shocks will result in breaching the threshold of the PV of debt-to-GDP ratio. A shock to exports leads to the PV of debt-to-exports ratio surpassing the applicable threshold in 2024. Overall, the mechanical signal suggests Liberia is at moderate risk of external debt distress.

15. The granularity assessment suggests that Liberia has limited space to absorb shocks (Figure 4). while all debt burden indicators remain well below their respective thresholds, the occurrence of the median observed shock results in a breach of PV of debt-to-GDP ratio in 2024 that continues until 2041. This suggests that Liberia has limited space to absorb shocks. The outcome of the granularity assessment has not changed compared to that of the last DSA. Nonetheless, all indicators show smaller ratios largely because of the better outcome of GDP and exports in 2021 and the upward revision in their projection paths and partially due to lower external debt to GDP ratio compared with the last DSA.

PUBLIC DSA

16. The PV of public debt to GDP ratio is expected to decline from 38.9 percent in 2021 to 34.6 percent in 2026, and it is projected to remain below the threshold for the rest of the projection period. At the time of the last DSA, PV of public debt to GDP ratio in 2021 was projected to be 44.8 percent but turned out to be only 38.9 percent of GDP. In the baseline, the PV of the public debt-to-GDP ratio decreases from 37.4 percent in 2022 to 35.9 percent in 2025 before declining to 30.9 percent in 2042 (Table 2 and Figure 2). The debt-service-to-revenue and grants ratio increases to 18.1 percent in 2024 and declines to 15.2 percent in 2032 as total debt amortization and interest payments grow at a similar rate as the public sector revenues and grants. Although no explicit threshold exists for the PV of debt-to-revenue and debt service-to-revenue ratios, further efforts in revenue mobilization and PFM reforms can alleviate borrowing needs and reduce debt service pressure.

17. Under standard sensitivity analysis scenarios, Liberia would be rated at high risk of public debt distress throughout the next decade. Among the bound tests, a real GDP shock results in the largest breach of the benchmark on the PV of debt-to-GDP ratio, followed by a shock to primary balance, other flows, combination of shocks, exports, and a one-time depreciation (Table 4). Additionally, the contingent liability stress test is estimated to lead to a one-off increase in the PV of public debt-to-GDP ratio to 49 percent in 2024 capturing the combined shock of SOE's external debt default, PPPs' distress, and financial market vulnerabilities that are not included in the covered data.

RISK RATING AND VULNERABILITIES

18. Liberia is assessed to be at moderate risk of external debt and high risk of overall debt distress. All external debt sustainability indicators remain below their indicative thresholds, leading to a moderate risk of external debt distress. The PV of public debt to GDP ratio exceeds the 35-percent threshold during 2022-25, which entails an assessment of high risk of public debt distress. In 2026, this ratio is projected to fall below its indicative threshold therefore public debt would be sustainable and Liberia would be assessed as being at moderate risk of debt distress.

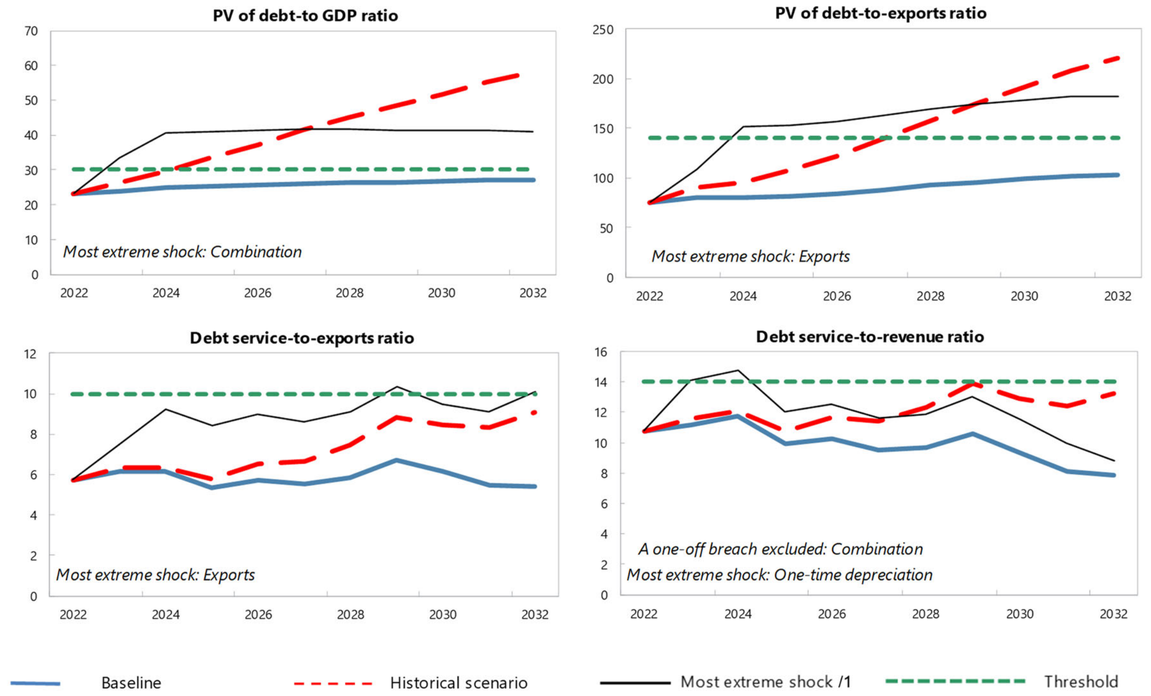
19. The DSA underscores that prudent fiscal policy and a borrowing plan prioritizing concessional loans are crucial for safeguarding debt sustainability and bringing public debt to moderate debt distress risk. To maintain external debt at moderate risk of debt distress and to bring public debt to moderate risk of debt distress in 2026, it is crucial to refrain from exceeding the limit set on the PV of new external borrowing and contract new domestic and external debt transparently. Moreover, improving debt management capacity and developing a medium-term debt strategy including a detailed borrowing plan can reduce the risks associated with timely debt service and overall debt sustainability.

20. The balance of risks to the outlook is tilted to the downside. A sizable drop in nominal GDP (either due to a sharp depreciation of LD or a weaker than anticipated real GDP growth rate) is a significant risk to external borrowing space and the risk rating of external debt. However, if nominal GDP, exports, and revenues deteriorate to levels projected at the time of the previous DSA, the external debt will remain at moderate risk of debt distress with limited space to absorb shocks. While the global economic slowdown caused by lower external demand and the war in Ukraine is expected to hamper growth, expansionary fiscal policy is expected to mitigate the impact of these negative external shocks. Furthermore, if major climate risks materialize before adaptation measures are in place, economic activity could fall. Any slowdown in growth or fiscal slippages in the future could reduce Liberia's borrowing space and increase its financing needs.

AUTHORITIES' VIEWS

21. The authorities agreed with the trust of this DSA. They thought that a moderate rating for external public and high rating for total public debt distress were appropriate and found the underlying macroeconomic assumptions reasonable. They stressed their determination to bring public debt to moderate risk of debt distress and reiterated their commitment to prudent macroeconomic policies and structural reforms. They were cognizant of the importance of refraining from non-concessional borrowing and prioritizing grants and highly concessional loans to support the implementation of Liberia's national development plan. They also indicated that they are pursuing the development of the domestic debt market to allow for the issuance of medium- and long-term bonds to implement priority development projects.

Figure 1. Liberia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2022–32



Customization of Default Settings

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

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

Borrowing assumptions on additional financing needs resulting from the stress tests*

	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.9%	0.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	34	34
Avg. grace period	7	7

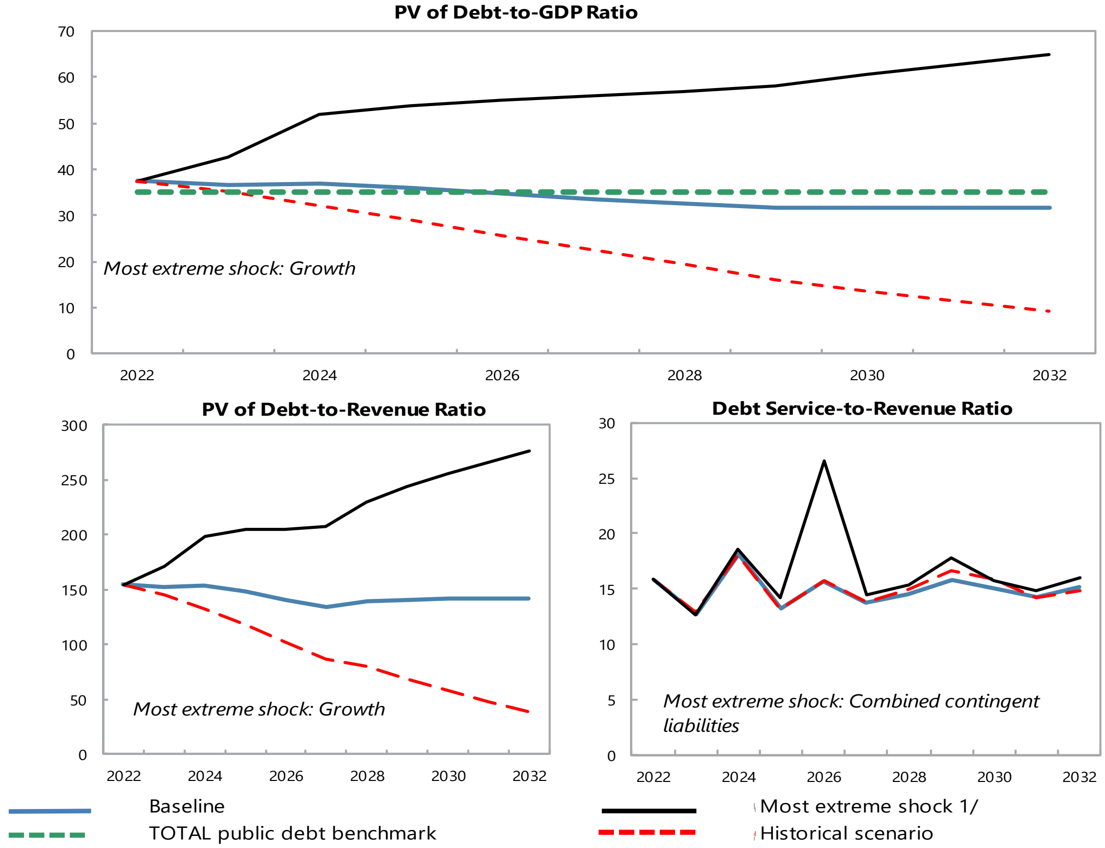
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

Figure 2. Liberia: Indicators of Public Debt Under Alternative Scenarios, 2022–32



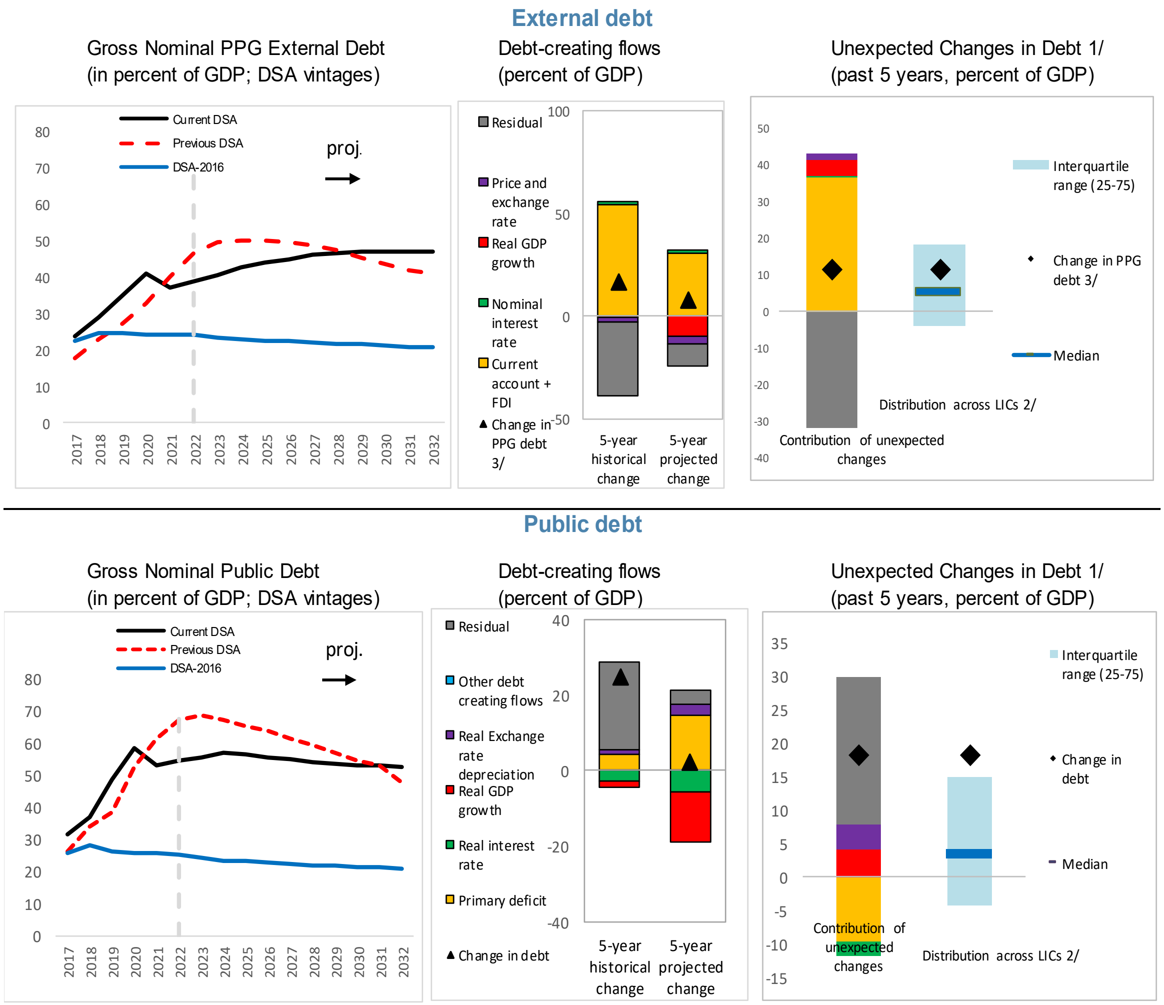
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	86%	86%
Domestic medium and long-term	14%	14%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.9%	0.9%
Avg. maturity (incl. grace period)	34	34
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.9%	1.9%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

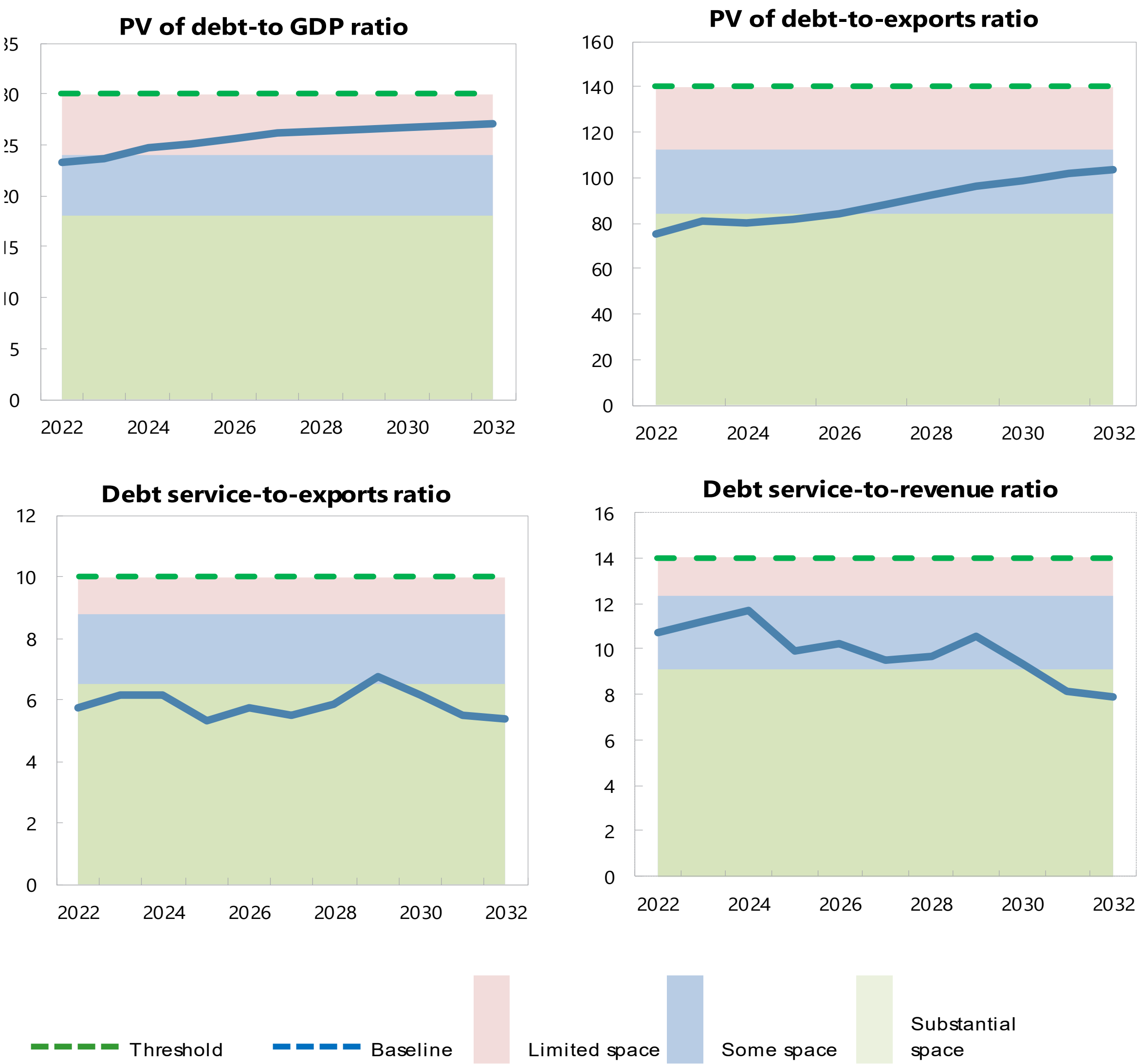


1/ Difference between anticipated and actual contributions on debt ratios.

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

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

Figure 4. Liberia: Qualification of the Moderate Category, 2022–32[1/]

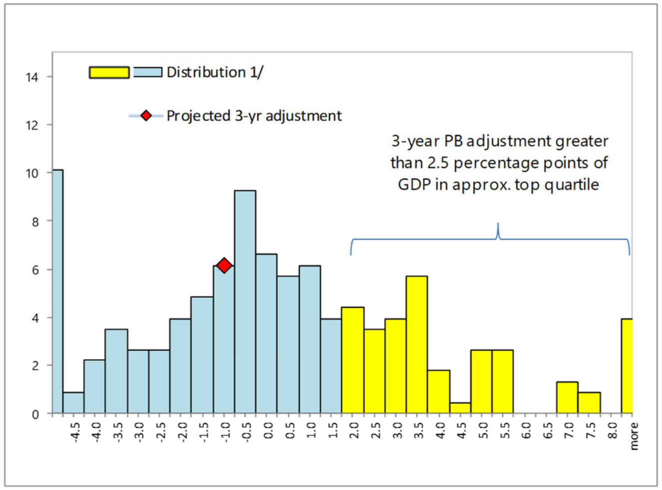


Sources: Country authorities; and staff estimates and projections.

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

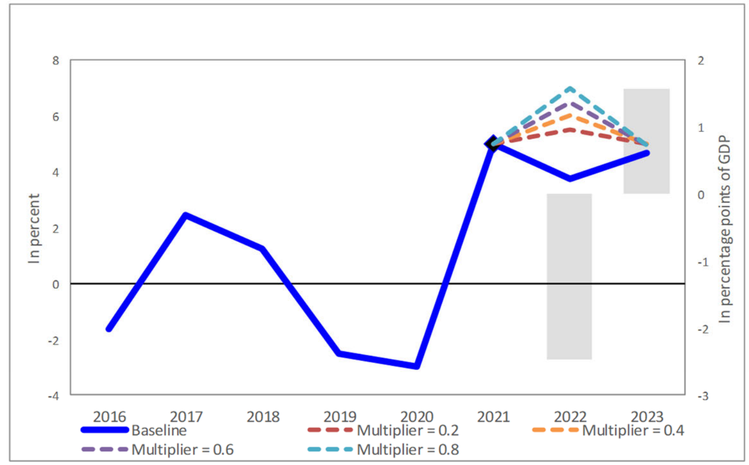
Figure 5. Liberia: Realism Tools

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



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

Fiscal Adjustment and Possible Growth Paths 1/



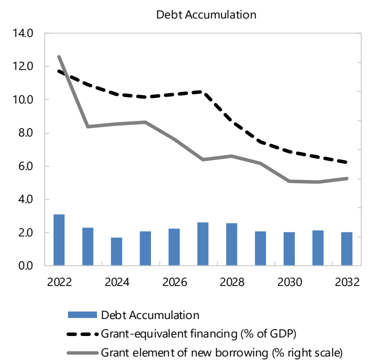
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

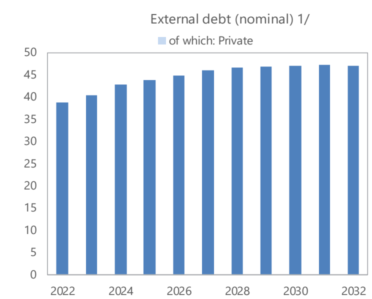
Table 1. Liberia: External Debt Sustainability Framework, Baseline Scenario, 2019–42

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	34.9	41.1	37.2	38.8	40.3	42.9	43.9	44.9	46.0	47.0	37.5	23.6	44.7
of which: public and publicly guaranteed (PPG)	34.9	41.1	37.2	38.8	40.3	42.9	43.9	44.9	46.0	47.0	37.5	23.6	44.7
Change in external debt	5.9	6.2	-3.9	1.6	1.6	2.5	1.0	1.0	1.1	-0.1	-1.4		
Identified net debt-creating flows	11.7	9.6	4.9	7.4	5.2	3.5	3.1	3.1	3.0	3.8	1.2	10.3	3.9
Non-interest current account deficit	19.4	16.0	17.3	15.7	14.9	14.7	14.6	14.5	14.3	13.9	9.6	21.1	14.5
Deficit in balance of goods and services	26.1	26.3	24.7	19.8	19.1	18.5	17.5	17.0	16.8	15.6	9.5	41.1	17.3
Exports	26.8	26.6	32.0	30.7	29.4	31.0	30.9	30.5	29.5	26.2	24.4		
Imports	52.9	53.0	56.6	50.5	48.5	49.5	48.4	47.5	46.3	41.8	33.9		
Net current transfers (negative = inflow)	-9.9	-15.0	-13.0	-9.2	-8.7	-8.7	-8.1	-7.8	-7.3	-5.6	-3.6	-23.7	-7.3
of which: official	-5.4	-7.3	-5.0	-3.1	-2.9	-3.1	-3.0	-2.8	-2.7	-2.2	-1.5		
Other current account flows (negative = net inflow)	3.2	4.7	5.7	5.1	4.6	5.0	5.2	5.3	4.8	3.9	3.7	3.7	4.6
Net FDI (negative = inflow)	-9.6	-7.3	-7.3	-7.4	-8.4	-9.4	-9.5	-9.5	-9.3	-8.4	-7.0	-10.4	-8.8
Endogenous debt dynamics 2/	2.0	0.8	-5.2	-0.9	-1.3	-1.9	-2.0	-1.9	-2.0	-1.7	-1.4		
Contribution from nominal interest rate	0.2	0.4	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.4	0.4		
Contribution from real GDP growth	0.8	1.1	-1.8	-1.2	-1.7	-2.2	-2.3	-2.2	-2.3	-2.1	-1.8		
Contribution from price and exchange rate changes	1.0	-0.6	-3.7	...	...	...	...	...	...	...	...		
Residual 3/	-5.8	-3.4	-8.8	-5.8	-3.7	-1.0	-2.1	-2.1	-1.9	-3.9	-2.6	-7.3	-3.0
of which: exceptional financing	0.0	-1.1	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	22.9	23.2	23.7	24.8	25.2	25.6	26.1	27.1	23.4		
PV of PPG external debt-to-exports ratio	...	...	71.8	75.4	80.6	79.9	81.3	83.8	88.5	103.3	95.8		
PPG debt service-to-exports ratio	3.4	6.1	4.8	5.7	6.1	6.2	5.3	5.7	5.5	5.4	6.2		
PPG debt service-to-revenue ratio	6.5	10.2	9.4	10.8	11.2	11.7	9.9	10.2	9.5	7.9	8.0		
Gross external financing need (Million of U.S. dollars)	328.9	314.0	407.3	395.3	354.7	315.1	314.1	337.5	355.9	528.9	619.1		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-2.5	-3.0	5.0	3.7	4.7	5.7	5.7	5.5	5.6	4.8	4.9	2.0	5.2
GDP deflator in US dollar terms (change in percent)	-3.2	1.6	10.0	8.2	2.7	-3.0	1.1	1.6	2.1	1.9	1.9	2.3	2.1
Effective interest rate (percent) 4/	0.7	1.0	1.0	1.0	1.0	1.0	0.8	0.8	0.8	0.9	1.0	0.9	0.9
Growth of exports of G&S (US dollar terms, in percent)	0.9	-2.1	38.6	7.9	2.9	8.1	6.5	5.6	4.4	5.8	6.1	7.0	5.4
Growth of imports of G&S (US dollar terms, in percent)	-8.0	-1.4	23.6	0.1	3.3	4.6	4.5	5.1	5.1	5.7	4.8	2.0	4.4
Grant element of new public sector borrowing (in percent)	...	...	...	56.4	51.6	51.7	51.9	50.7	49.3	48.0	46.7	...	50.3
Government revenues (excluding grants, in percent of GDP)	13.9	15.9	16.4	16.4	16.1	16.3	16.7	17.1	17.2	18.0	19.0	13.3	17.1
Aid flows (in Million of US dollars) 5/	534.7	686.1	503.2	509.2	496.9	512.0	543.4	590.5	638.9	547.6	632.1		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	11.7	10.9	10.3	10.1	10.3	10.5	6.2	3.8	...	9.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	79.2	79.7	81.0	80.6	79.5	78.6	75.3	75.6	...	77.6
Nominal GDP (Million of US dollars)	3,080	3,037	3,509	3,938	4,236	4,339	4,636	4,968	5,354	7,644	14,933		
Nominal dollar GDP growth	-5.6	-1.4	15.5	12.2	7.6	2.4	6.9	7.2	7.8	6.8	6.9	4.4	7.4
Memorandum items:													
PV of external debt 7/	...	...	22.9	23.2	23.7	24.8	25.2	25.6	26.1	27.1	23.4		
In percent of exports	...	...	71.8	75.4	80.6	79.9	81.3	83.8	88.5	103.3	95.8		
Total external debt service-to-exports ratio	3.4	6.1	4.8	5.7	6.1	6.2	5.3	5.7	5.5	5.4	6.2		
PV of PPG external debt (in Million of US dollars)			805.2	913.0	1004.1	1076.1	1166.5	1270.0	1399.4	2071.4	3493.2		
(PVt-PVt-1)/GDPt-1 (in percent)				3.1	2.3	1.7	2.1	2.2	2.6	2.0	0.9		
Non-interest current account deficit that stabilizes debt ratio	13.5	9.9	21.2	14.1	13.4	12.2	13.6	13.4	13.2	14.0	11.0		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

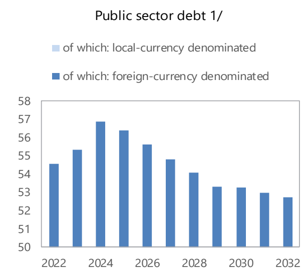
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

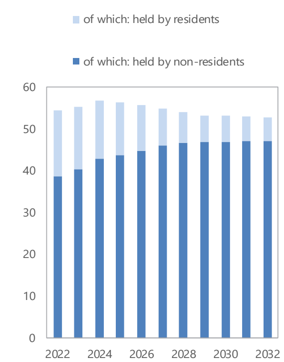
Table 2. Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–42

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	48.5	58.7	53.2	54.6	55.3	56.9	56.4	55.6	54.8	52.7	45.6	34.6	54.5
of which: external debt	34.9	41.1	37.2	38.8	40.3	42.9	43.9	44.9	46.0	47.0	37.5	23.6	44.7
Change in public sector debt	11.4	10.1	-5.5	1.4	0.7	1.6	-0.5	-0.7	-0.8	-0.3	-1.1		
Identified debt-creating flows	6.3	3.7	-5.8	-0.5	-1.0	-1.1	-0.9	-0.7	-0.6	-0.3	-1.5	-4.2	-0.5
Primary deficit	3.8	2.6	1.5	4.0	2.4	2.6	2.8	2.8	2.9	2.6	1.1	-3.4	3.0
Revenue and grants	27.4	31.3	27.3	24.2	24.1	24.0	24.2	24.7	24.9	22.3	21.7	26.4	23.5
of which: grants	13.5	15.3	10.9	7.8	8.0	7.7	7.5	7.6	7.7	4.3	2.7		
Primary (noninterest) expenditure	31.1	33.8	28.8	28.2	26.5	26.7	27.0	27.5	27.8	24.9	22.8	23.0	26.5
Automatic debt dynamics	2.5	1.2	-7.4	-4.5	-3.5	-3.7	-3.8	-3.6	-3.5	-3.0	-2.6		
Contribution from interest rate/growth differential	0.6	1.4	-4.5	-4.5	-3.5	-3.7	-3.8	-3.6	-3.5	-3.0	-2.6		
of which: contribution from average real interest rate	-0.4	-0.1	-1.7	-2.5	-1.0	-0.8	-0.7	-0.6	-0.6	-0.5	-0.4		
of which: contribution from real GDP growth	1.0	1.5	-2.8	-1.9	-2.4	-3.0	-3.1	-2.9	-2.9	-2.4	-2.2		
Contribution from real exchange rate depreciation	1.9	-0.2	-2.9	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	5.2	6.4	0.4	1.9	1.7	2.7	0.4	0.0	-0.2	0.1	0.4	7.7	0.5
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	38.9	37.4	36.7	36.9	35.9	34.6	33.4	31.7	30.9		
PV of public debt-to-revenue and grants ratio	...	...	142.7	154.6	152.5	153.5	148.3	140.2	134.2	142.2	142.6		
Debt service-to-revenue and grants ratio 3/	4.5	8.5	12.3	15.9	12.7	18.1	13.3	15.7	13.7	15.2	17.5		
Gross financing need 4/	5.0	5.2	4.9	7.8	5.5	7.0	6.0	6.7	6.3	6.0	4.9		
Key macroeconomic and fiscal assumptions													
Nominal GDP (local currency)	3,080	3,037	3,509	3,938	4,236	4,339	4,636	4,968	5,354	7,644	14,933		
Real GDP growth (in percent)	-2.5	-3.0	5.0	3.7	4.7	5.7	5.7	5.5	5.6	4.8	4.9	2.0	5.2
Average nominal interest rate on public debt (in percent)	1.2	1.7	2.1	2.0	2.0	1.9	1.8	1.8	1.7	1.6	1.9	0.9	1.8
Average nominal interest rate on external debt (in percent)	0.7	1.0	1.0	1.0	1.0	1.0	0.8	0.8	0.8	0.9	1.0	0.9	0.9
Average nominal interest rate on domestic debt (in percent)	3.0	3.6	4.8	4.3	4.6	4.5	4.8	5.2	5.6	7.5	6.4	1.8	5.6
Average real interest rate (in percent)	-1.0	-0.2	-3.0	-5.0	-1.9	-1.5	-1.3	-1.2	-1.2	-1.1	-1.0	-0.9	-1.6
Average real interest rate on domestic debt (in percent)	6.4	1.9	-4.7	-3.6	1.8	7.8	3.7	3.6	3.4	5.4	4.4	-0.9	3.7
Average real interest rate on external debt (in percent)	-1.0	-0.2	-3.0	-5.0	-1.9	-1.5	-1.3	-1.2	-1.2	-1.1	-1.0	-0.9	-1.6
Exchange rate (LC per US dollar)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Nominal depreciation of local currency (percentage change in LC per dollar)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange rate (US dollar per LC)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Nominal appreciation (increase in US dollar value of local currency, in percent	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real exchange rate depreciation (in percent, + indicates depreciation)	5.2	-0.4	-5.3	...	...	...	...	...	...	...	...	-0.2	...
Inflation rate (GDP deflator, in percent)	-3.2	1.6	10.0	8.2	2.7	-3.0	1.1	1.6	2.1	1.9	1.9	2.3	2.1
US Inflation rate (GDP deflator, in percent)	1.8	1.2	4.2	6.3	3.0	2.5	2.1	2.0	2.0	2.0	2.0	1.9	2.6
Growth of real primary spending (deflated by GDP deflator, in percent)	22.1	5.4	-10.5	1.4	-1.5	6.3	7.2	7.4	6.5	4.0	3.8	4.6	3.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-7.7	-7.6	7.0	2.6	1.7	1.1	3.3	3.6	3.8	2.9	2.2	-2.7	3.0
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–32

(Percent)

	Projections 1/										
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
PV of debt-to GDP ratio											
Baseline	23	24	25	25	26	26	26	26	27	27	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	23	26	30	**33**	**37**	**41**	**45**	**48**	**52**	**55**	**58**
B. Bound Tests											
B1. Real GDP growth	23	26	**31**	**32**	**32**	**33**	**34**	**34**	**34**	**34**	**34**
B2. Primary balance	23	27	**39**	**39**	**39**	**40**	**39**	**39**	**38**	**38**	**38**
B3. Exports	23	27	**34**	**34**	**35**	**35**	**35**	**35**	**35**	**35**	**34**
B4. Other flows 3/	23	**31**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**39**	**38**
B5. Depreciation	23	30	27	28	29	29	30	**30**	**30**	**31**	**31**
B6. Combination of B1-B5	23	**33**	**41**	**41**	**41**	**42**	**42**	**41**	**41**	**41**	**41**
C. Tailored Tests											
C1. Combined contingent liabilities	23	**32**	**33**	**34**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	23	26	28	28	29	29	30	29	30	30	**30**
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	75	81	80	81	84	88	92	96	99	102	103
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	75	90	96	108	122	140	**158**	**176**	**192**	**208**	**221**
B. Bound Tests											
B1. Real GDP growth	75	81	80	81	84	88	92	96	99	102	103
B2. Primary balance	75	93	126	126	129	134	137	**140**	**143**	**144**	**144**
B3. Exports	75	109	**152**	**154**	**157**	**164**	**169**	**174**	**178**	**182**	**182**
B4. Other flows 3/	75	107	130	130	132	137	**140**	**144**	**147**	**148**	**146**
B5. Depreciation	75	81	70	72	74	79	83	87	89	92	95
B6. Combination of B1-B5	75	110	106	128	130	136	**141**	**145**	**148**	**150**	**150**
C. Tailored Tests											
C1. Combined contingent liabilities	75	110	108	109	114	119	123	127	130	132	134
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	75	81	80	82	85	89	93	96	98	101	103
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	6	6	6	5	6	6	6	7	6	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	6	6	6	6	7	7	7	9	8	8	9
B. Bound Tests											
B1. Real GDP growth	6	6	6	5	6	6	6	7	6	5	5
B2. Primary balance	6	6	7	8	8	8	8	9	8	8	8
B3. Exports	6	7	9	8	9	9	9	**10**	9	9	**10**
B4. Other flows 3/	6	6	7	6	7	6	7	7	7	7	9
B5. Depreciation	6	6	6	5	6	5	6	7	6	5	5
B6. Combination of B1-B5	6	7	8	7	7	7	8	9	8	8	8
C. Tailored Tests											
C1. Combined contingent liabilities	6	6	7	6	6	6	6	7	7	6	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	6	6	6	5	6	6	7	8	7	5	5
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	11	11	12	10	10	9	10	11	9	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	11	12	12	11	12	11	12	14	13	12	13
B. Bound Tests											
B1. Real GDP growth	11	13	**15**	13	13	12	12	13	12	10	10
B2. Primary balance	11	11	14	14	14	13	13	14	12	12	12
B3. Exports	11	12	13	11	12	11	11	12	10	10	11
B4. Other flows 3/	11	11	13	11	12	11	11	12	10	11	12
B5. Depreciation	11	**14**	**15**	12	13	12	12	13	12	10	9
B6. Combination of B1-B5	11	13	**15**	13	14	13	13	14	12	13	13
C. Tailored Tests											
C1. Combined contingent liabilities	11	11	13	11	11	10	10	11	10	9	8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	11	11	12	10	10	10	11	13	10	8	8
Threshold	14	14	14	14	14	14	14	14	14	14	14

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

Table 4. Liberia: Sensitivity Analysis for Key Indicators of Public Debt, 2022–32
(Percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	**37**	**37**	**37**	**36**	35	33	32	32	32	32	32
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**37**	**35**	32	29	26	22	19	16	14	11	9
B. Bound Tests											
B1. Real GDP growth	**37**	**43**	**52**	**54**	**55**	**56**	**57**	**58**	**61**	**63**	**65**
B2. Primary balance	**37**	**42**	**55**	**54**	**52**	**50**	**48**	**47**	**47**	**46**	**46**
B3. Exports	**37**	**39**	**44**	**43**	**42**	**40**	**39**	**38**	**38**	**38**	**37**
B4. Other flows 3/	**37**	**44**	**52**	**51**	**49**	**48**	**46**	**45**	**45**	**44**	**43**
B5. Depreciation	**37**	**42**	**40**	**38**	**36**	33	31	29	28	27	26
B6. Combination of B1-B5	**37**	**40**	**45**	**45**	**45**	**45**	**45**	**44**	**45**	**46**	**47**
C. Tailored Tests											
C1. Combined contingent liabilities	**37**	**49**	**49**	**49**	**46**	**45**	**44**	**43**	**43**	**43**	**43**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	**37**	**37**	**37**	**36**	35	34	33	32	32	32	32
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	155	152	153	148	140	134	140	140	142	141	142
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	155	145	132	118	102	87	80	69	58	48	39
B. Bound Tests											
B1. Real GDP growth	155	171	199	205	205	207	229	244	255	265	276
B2. Primary balance	155	175	228	222	209	200	208	209	208	207	206
B3. Exports	155	163	185	178	169	162	168	169	169	168	167
B4. Other flows 3/	155	185	218	211	200	192	198	199	199	196	193
B5. Depreciation	155	177	173	161	147	136	135	130	127	123	120
B6. Combination of B1-B5	155	164	183	183	179	177	189	195	200	203	208
C. Tailored Tests											
C1. Combined contingent liabilities	155	202	206	201	187	181	189	191	192	192	192
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	155	152	154	149	141	135	140	140	141	141	142
Debt Service-to-Revenue Ratio											
Baseline	16	13	18	13	16	14	15	16	15	14	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	16	13	18	13	16	14	15	17	16	14	15
B. Bound Tests											
B1. Real GDP growth	16	14	21	16	20	19	20	22	22	21	23
B2. Primary balance	16	13	20	17	23	21	18	19	18	17	19
B3. Exports	16	13	18	14	16	14	15	16	15	15	17
B4. Other flows 3/	16	13	19	14	17	15	15	17	16	17	19
B5. Depreciation	16	14	20	15	18	15	16	18	17	15	16
B6. Combination of B1-B5	16	13	21	17	19	17	19	20	19	18	19
C. Tailored Tests											
C1. Combined contingent liabilities	16	13	19	14	27	14	15	18	16	15	16
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	16	13	18	13	16	14	15	17	16	14	15

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

LIBERIA

August 8, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND FOURTH REVIEW OF THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND REPHASING OF ACCESS—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of May 31, 2022)

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

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

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	371.64	100.00
Holdings	346.08	93.12

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF loans	55.56	21.50
ECF arrangements	142.11	54.99

Latest Financial Arrangements:

Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF	Dec 11, 2019	Dec 10, 2023	155.00	68.00
ECF	Nov. 19, 2012	Nov. 17, 2017	111.66	111.66
ECF[1]	Mar. 14, 2008	May 17, 2012	247.90	247.90

[1]Formerly PRGF.

Outright Loans:

Type	**Date of Commitment**	**Date Drawn**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
RCF	Jun 05, 2020	Jun 09, 2020	36.18	36.18
RCF	Feb 23, 2015	Feb 27, 2015	32.30	32.30

Projected Payments to Fund

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

	2022	2023	2024	2025	2026
Principal	17.17	27.32	24.36	20.38	25.93
Charges/Interest	0.07	0.17	0.17	0.17	0.17
Total	17.24	27.48	24.53	38	26.09

Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date	March 2008
Assistance committed	
by all creditors (US$ Million)[1]	2,739.20
Of which: IMF assistance (US$ Million)	721.10
(SDR equivalent in millions)	440.90
Completion point date	June 2010
Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	440.90
Interim assistance	30.14
Completion point balance	410.76
Additional disbursement of interest income[2]	10.99
Total disbursements	451.89

Delivery of Debt Relief at the Completion Point:

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

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

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

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

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Feb 23, 2015	25.84	25.84
N/A	Apr 13, 2020	11.63	11.63
N/A	Oct 2, 2020	11.19	11.19
N/A	April 1, 2021	11.48	11.48
N/A	Oct 6, 2021	3.10	3.10
N/A	December 15, 2021	7.94	7.94

Safeguards Assessment

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

Exchange Rate Arrangement

The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. The de jure exchange rate regime classification is 'managed floating'. Since March 2021, the exchange rate has stabilized within a 2 percent band against the U.S. dollar. Accordingly, the de facto exchange rate arrangement was reclassified to "stabilized" from "other managed", effective March 17, 2021. Liberia maintains an exchange rate system that is free of restrictions and multiple currency practices. The CBL allows the exchange rate to be determined in the foreign exchange market and FX interventions are limited to smoothing excessive exchange rate volatility.

Technical Assistance 2014–22

Topic	Date
Fiscal Affairs Department	
Revenue Administration	February–March and April-May 2014, November 2014–April 2015 (Remote), July–August, September-October, and November–December 2015, February, June, October, and December 2016, Long-term residential advisor has been deployed in the LRA since January 2016. February-April, July, November, and December 2017, January 2018, March-April 2018, May 2018, June 2018, July 2018, August-September 2018, October 2018, November 2018, February 2019, March 2019, October 2020, November 2020, June 2021, December 2021, February 2022 (ITAS), March 2022.
Public Financial Management Reform	January, February, November 2016, May-June, July-August, September, October, November, December 2017, April 2018, June 2019, September 2020, October – November 2020, March 2021, March – April 2021, May 2022
Natural Resource Revenue	January and March, and December 2016, February, and April 2017, April 2018, February 2019
Fiscal Decentralization	December 2015
Capacity Building and Sector Audit Training, including Computer assisted Audit Techniques in Telecommunications	April 2014, November 2020
Fiscal Framework for a New Model Petroleum Production Sharing Contract and Revenue Modeling	June 2014, August 2018, October 2020
Budget Formulation and Public Sector Investment Plan	June 2015, June 2019
Public Investment Management Assessment	July 2016, July, September 2017, January 2018
Tax Policy	February 2017, May 2019, June-July 2021, October-November 2021
Cash Management	September 2017, April 2018, September 2018, October 2019
Treasury Single Account – CBL	May 2021, November; December 2021; March 2022
Training of officials from SOEs on International Financial Reporting Standards	October 2021
Customs Border Controls / Risk Management	June 2020, August 2020, October 2020, March – April 2021, September 2021, September – December 2021, July – August 2021

Training IFRS Mining	September 2021
Gender Responsive Budgeting	August 2021
Trade Facilitation	August – September 2021
Domestic Revenue Mobilization Strategy	May – June 2020
FARI Sectoral Mining Model	August – September 2020, April 2021
Data cleansing and migration strategy [remote]	May – June 2020
Statistics Department	
Balance of Payments	July 2014 and January–February, June–July 2016, January, July 2017, Feb 2018, September 2018, April 2019, February 2020, February 2021, March 2022
Government Financial Statistics	September 2016, October 2017, March 2019, November 2020
National Accounts, Consumer Price Index, and Producer Price Index	May 2014, April–September (Remote), June–July, November 2015, March, July, August, September, December, December 2016, February, July–August, November 2017, December 2017, January 2018, February 2018, April 2018, June 2018, August-September 2018, October- November 2018, January 2019, March-April 2019, July 2019, November 2019, March 2020, August 2020, March 2021, April 2021, May 2021, June-July 2021, October 2021-February 2022, November 2021, March-June 2022, April 2022
Monetary and Financial Statistics	January-February 2019, January 2020
Financial Soundness Indicators	April 2019, January 2020, February 2020, February 2021, July 2021
Monetary and Capital Markets Department	
Central Bank Governance	November 2017, May 2020
Banking Supervision	January, April, July 2014. February, April–May, August, November 2016, January 2019, June 2019, September 2019, December 2019, June-July 2020, August 2020, June 2021, January-February 2022, March 2022, April 2022
Monetary Policy	July 2018, October 2018, February-March 2019, April-May 2019, August 2019, June 2021, September 2021, October-November 2021, March 2022
Central Bank Accounting	August 2016, March 2017
Monetary Analysis and Payment System	November 2016, November-December 2017
Basel II/III Training Workshop	November 2016, July 2017
Liquidity Forecasting	May 2014, August 2015, and January–February 2016, June 2020, June-July 2020, March 2021, October-November 2021

Crisis Preparedness and Management Framework	October–November 2015, January 2017, March 2017, August-September 2018
Central Bank Internal Operational Cost Structure and Annual Budget	August 2019
Currency management and control	November 2019, May 2020, April 2021, July-December 2021 (development of the high-level currency changeover implementation plan)., March-April 2022, May 2022
FX reserves management	July – August 2021
Financial Institution Restructuring and Resolution	November 2020
Medium Term Debt Management Strategy	May-June 2022
Finance Department	
Safeguards and Fiscal Investment	September 2017, September 2019
Legal Department	
AML/CFT framework	November 2017, March 2018, August 2018, February-March 2019, July 2019, December 2019
CBL Act	January 2018, July 2020, July 2021
Tax Law	October 2017
New Financial Institutions Act	2020-22

RELATIONS WITH OTHER IFI'S

- World Bank Group

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

- African Development Bank

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

- AFRITAC West 2

  http://www.afritacwest2.org/home

STATISTICAL ISSUES

(As of May 31, 2022)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. Most affected areas are: national accounts, government finance, and balance of payments statistics.
National Accounts: Comprehensive national accounts data are not available and Fund staff use their own estimates of GDP for surveillance. The Liberia Institute of Statistics and Geo-Information Services (LISGIS) is progressing on the rebasing of the national accounts, with base year 2016. The statistical data from the 2016 National Accounts Annual Survey (NAAS), the 2016 Household Income and Expenditure Survey (HIES) and the 2017 Labour Force Survey (LFS) have been analyzed and used to compile GDP estimates according to the production and the expenditure approaches. In addition, administrative data sources for economic activities not covered by the above-mentioned surveys were identified. LISGIS had made progress on acquiring the outstanding data on livestock, electricity, forestry, water supply, public administration, health and education, new balance of payment data, and tax data, for the series 2016-2020. The data were used to produce the estimates of gross value added (GVA) at current and constant prices of the formal economy and components of GDP by the expenditure approach. Currently LISGIS is working to finalize the GDP estimates for the series 2016-2020, including a document on the description of the sources and methods used on the national accounts compilation. The results of the rebased GDP are expected to be published by the end of July-beginning of August 2022.
Price Statistics: Assisted by the EDDI 2 project,[1] the LISGIS introduced an updated CPI in February 2019 (January 2019 index) using expenditure weights and an updated market basket based on the 2016 Household Income and Expenditure Survey (HIES). Currently, index coverage is restricted to Monrovia, but the LISGIS plans to expand index coverage to include all Liberia as part of the next CPI update following the 2023 HIES. The price of Education and Health services had breaks in the series in July and September 2020 and July 2021, which led to an upward jump in CPI The LISGIS does not currently compile a PPI for Liberia. A mission in April 2022 identified data that can be used to develop preliminary weights and agreed on a workplan to guide LISGIS on the way forward with developing a PPI. . A new census of establishments will be conducted beginning in July 2022, and these data will be used to update the upper-level PPI weights and to provide a current frame for selecting a sample of establishments. The initial target date for disseminating the new PPI is August 2023. Future TA missions are planned to help LISGIS to improve the CPI and to publish the PPI.
Government Finance Statistics (GFS): While currently compiled GFS largely align with the guidelines of the GFSM 2001/14, gaps remain on the comprehensiveness of transactions in the statement of operations and the institutional coverage of data. Not all external flows, on grants and loans, and associated expenditure are comprehensively captured in the statement of operations. Data coverage remains limited to the budgetary central government. Expenditure transactions are currently recorded on commitment basis, while all other transactions in the statement of operations are mainly recorded on cash basis. No adjustment is made to bridge the timing difference of transactions on commitment and cash basis in the statement of operations. IMF technical assistance will continue to support the authorities to improve data quality, but efforts will be required to improve coordination and data sharing mechanisms between various data producing and data using units.
[1]Enhanced Data Dissemination Initiative (EDDI) phase 2 funded by the UK Department for International Development.

Monetary and Financial Statistics (MFS): The Central Bank of Liberia (CBL) has completed the compilation of monetary data for the central bank and other depository corporations based on STA Standardized Report Forms (SRFs). The timeliness of MFS provision to STA is hampered by technical issues at the CBL, particularly for the central bank balance sheet. The implementation of the remaining recommendations of the January 2020 TA mission and regular compilation of monetary data based on the SRFs are critical for surveillance. The CBL reports some data and indicators to the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).	
Financial sector surveillance: The CBL submits some supervisory ratios to the country team for surveillance purposes. A TA mission in April 2019 and two TA missions in 2021 established an FSI workbook based on 2019 FSIs Guide that is expected to be used by CBL to compile and report quarterly FSIs for deposit takers to STA starting from September 2022. The CBL needs to follow up with the TA mission before the FSIs can be published without examination and corrections by economists from AFR and STA.	
External sector statistics: The quality of the ESS has been improving gradually, although for surveillance purposes more efforts are required. Balance of payments statistics are compiled quarterly since August 2016 on a *BPM6* basis and have been submitted to the Fund since 2017. Trade, income, transfers, some of the balance of payments services components, and equity and debt liabilities of non-financial sectors are not accurately covered. The unavailability of quality source data for most transactions remains the main hindrance to the compilation of accurate statistics. Compilers attempted to address the lack of data by resorting to estimation techniques, but the inputs used are insufficient. Shortage of staff and the lack of both reporting enforcement and compliance with reporting standards continue to pose constraints to enhancing the quality of source data. In addition, the CBL has started compiling preliminary annual International Investment Position data. With a view to further improve data quality, new administratively sourced cross-border flows and positions data have been tapped and the CBL has implemented in 2018 an International Transactions Reporting System (ITRS) and a Direct Investment survey. Moving forward, improvements are needed in the collaboration with other data-producing institutions to ensure consistency in the methodological standards used and comprehensiveness of the current account components. Establishing formal institutional collaboration between the Liberia Revenue Authorities (LRA) and the CBL is crucial for developing Direct Investment statistics. The coverage of the ITRS needs to be extended to include all banks as well as the CBL's cross-border transactions. Recent STA missions have focused on enhancing the data collection framework and practices, with guidance on updates to survey forms and collection methods (from paper to electronic submission format).	
II. Data Standards and Quality	
Participant in the enhanced General Data Dissemination System (e-GDDS) since October 2005, but without a National Summary Data Page. Metadata for most data categories were updated in November 2013.	No Data ROSC mission has been conducted.

Liberia: Table of Common Indicators Required for Surveillance					
	Date of Latest Observation	**Date Received**	**Frequency of Data[6]**	**Frequency of Reporting[7]**	**Frequency of Publication[6]**
Exchange Rates	5/2022	6/2022	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	6/2022	6/2022	D	M	Q
Reserve/Base Money	3/2022	5/2022	M	M	Q
Broad Money	1/2022	3/2022	M	M	Q
Central Bank Balance Sheet	3/2022	5/2022	M	M	Q
Consolidated Balance Sheet of the Banking System	1/2022	3/2022	M	M	Q
Interest Rates[2]	4/2022	6/2022	M	M	Q
Consumer Price Index	4/2022	36/2022	M	M	Q
Revenue, Expenditure, Balance and Composition of Financing[3]– Budgetary Central Government	6/2022	6/2022	WM	WM	Q
Stocks of Central Government and Central Government-Guaranteed Debt[4]	12/2021	1/2022	M	M	Q
External Current Account Balance	12/2021	2/2022	Q	Q	Q
Exports and Imports of Goods and Services	4/2022	6/2022	MQ	MQ	Q
GDP/GNP	2017	11/2018	A	A	I
Gross External Debt	12/2021	1/2022	M	M	Q
International Investment Position[5]	Q4/2019[6]	10/2020	Q	Q	Q

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

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

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

[4]Including currency and maturity composition.

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

[6]IIP data has not been submitted to the STA since Q4 of 2019 mainly due to capacity constraints and lack of access to source data. The last STA TA mission worked with the authority to address these issues, by identifying new source data and working with data providers to provide regular and timely data.

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

Statement by Ms. Ita Mannathoko, Executive Director for Liberia, and Mr. Moeti Damane, Advisor to the Executive Director

August 24, 2022

Introduction

1. Our Liberian authorities appreciate the productive engagement with staff during the Article IV mission and the fourth review of the Extended Credit Facility (ECF) arrangement. They broadly agree with staff's assessment.

2. The Liberian economy had a more robust recovery in 2021 than was envisaged at the last program review, with sustained improvement in vaccination rates (around 60 percent of the population vaccinated thus far) complementing a boost in productive activity, especially in the gold mining, rubber and cement industries. The ECF program continues to entrench macroeconomic stability and the imperative of placing Liberia on a fiscally sustainable growth path anchored by the authorities' Pro-Poor Agenda for Prosperity and Development (PAPD). That said, reforms have been especially difficult to achieve in the fragile context and with the added challenge of repeated external shocks. In this regard, the ECF program continues to play a critical role, helping the authorities stabilize the economy and strengthen governance. The authorities are therefore committed to pushing through remaining reforms and seek Directors' support to complete the fourth review with associated waivers, a performance criterion (PC) modification and rephasing of the program.

Recent Economic Developments and Outlook

3. At 5 percent, real GDP growth performance in 2021 was well above the 3.6 percent expected at the time of the third program review. Recovery in services alongside strong performance in gold, rubber, cement, and palm oil have supported this positive outcome. In the medium-term, growth is projected at between 5 – 6 percent. The current account deficit is expected to narrow to 16 percent of GDP in 2022 as the trade account continues to improve. The net international reserve position has also improved with import cover almost doubling to over 4 months on the back of the general SDR allocation.

4. Under the program, the authorities brought inflation down from an average 27 percent in 2019 to 5.5 percent at the end of 2021, as reforms ended monetary financing of the budget and installed prudent fiscal and monetary policies. However, as global inflationary pressures have risen in recent months, this has fed into Liberian prices and inflation rose in the first quarter of 2022, fueled by rising food and energy prices in the wake of the Russian war in

Ukraine. Inflation is expected to settle at around 5 percent in the medium term as global prices normalize.

Program Performance

5. Program performance against quantitative targets (QTs) and continuous performance criteria (PCs) for end-June 2021 was quite strong, despite disruptions from the pandemic and recent shocks that added to an already heavy workload. Five out of six PCs were met, with the sixth (accumulation of net international reserves) missed by a small margin. Four out of five indicative targets (ITs) were met. The fifth, on-budget capital spending, fell short of the target floor due to funding challenges.

6. Three structural benchmarks (SBs) that had been converted to prior actions; namely submission of the FY2019/20 budget audit report to the Legislature, adoption of the Whistleblower and Witness Protection Act, and adoption of the Liberia Anti-Corruption Commission (LACC) Act and amendments to the Code of Conduct, were satisfied. Two additional SBs relating to enhancing reporting practices on foreign exchange withdrawals and developing a methodology for forecasting future demand for bank notes by denomination, were met on time, while four relating to issuance of a circular to mandate that government contracts be accompanied by IFMIS-generated purchase orders, enhancing reporting practices on foreign exchange withdrawals through semi-annual external audits on the foreign exchange reserves, destruction of unfit notes, and setting up a dual control security strategy, respectively, were implemented with a delay. Work is underway on the remaining SBs.

Fiscal Policy and Fiscal Management

7. The authorities continue to follow a prudent fiscal stance, with a view to fostering fiscal and debt sustainability. The fiscal deficit (excluding grants, donor projects) declined from 2.2 percent of GDP in 2020 to 0.9 percent in 2021. However spending pressures including from the effects of the Russia war in Ukraine pushed the 2022 deficit back up to 2.4 percent of GDP. To help offset the additional demands on resources, the authorities reduced other current and capital spending, secured additional domestic revenues, and postponed the envisaged payback of Liberian-dollar-denominated T-bonds. The authorities plan to reverse the increase in the deficit in 2023, bringing it back down to lower levels. In the meantime they intend to avoid fuel subsidies for now and limit rice subsidies to offsetting the sharp increase in shipping costs for imports. As per the Amended and Restated Act of the Central Bank of Liberia, the authorities will refrain from using direct credit from the central bank. They will also avoid incurring payment arrears.

8. They also agree with staff on the importance of reforming public enterprises and strengthening their management and governance to reduce subsidization and improve service delivery. Among other things, they plan for Cabinet to adopt a comprehensive reform action plan for the Liberia Electricity Company (LEC), validated by development partners that are supporting LEC reforms, in October 2022. They note that a lasting solution requires deep reforms, including systems that will curb rampant power theft and entrench efficiency. Measures to strengthen management of LEC are needed and they are in the process of appointing a new management team. The authorities are also progressing with reforms of airport operations, seeking fundamental reform and identifying new airport management. Current budgetary allocations to the airport authority (to ensure safe operations) and to the LEC, relate to repairs and the rehabilitation of dilapidated infrastructure. The authorities also intend to expand the coverage and monitor the quality of SOE debt, in debt management reports.

9. The authorities are committed to improving spending efficiency and protecting capital spending in budget execution. Adequate justification is required for any transfer of funds from approved capital budgets to recurrent spending (procedure set out in the Public Finance Management Act (2009) and the Budget Transfer Act (2008)). On capital spending, the authorities continue work to build efficiencies. A pipeline of approved sector projects will be developed, led by the Project Implementation Unit of the Ministry of Finance and Development Planning (MFDP). On recurrent spending, the authorities are committed to containing the wage bill and plan a further reduction of 3,000 in the number of civil service employees, adding to the 5,000-reduction recorded since 2019. Physical verification of employees, additional retirement, and stringent justification requirements for new recruitment will be applied.

10. On the revenue front, the authorities' fiscal performance in FY2020/21 was strong. The primary fiscal deficit excluding grants overperformed the program target by 0.9 percent of GDP largely due to strong revenue performance. This reflected the introduction of a fuel excise tax, changes in the application of the personal income tax, robust border tax collection on the back of strong imports, and progress made with revenue administration reforms.

11. Looking forward, the authorities intend to continue to improve revenue mobilization. They plan to replace general sales tax with value-added tax to improve efficiency and broaden the tax base. It is envisaged that a comprehensive draft bill will be ready for submission to the Legislature by late 2023 or early 2024. They also plan to further streamline tax exemptions and ensure their proper application and have already scaled down the investment tax incentive regime by limiting the number of qualifying sectors to 9 down from 18, and cutting the validity period to 3 years, down from 5. They are also considering transforming duty

waivers for Liberian returnees into a rebate system, replacing petroleum tax exemptions with a tax rebate system, directing that all government contracts be inclusive of tax, curtailing duty waivers for the import of vehicles by members of the Legislature, further narrowing the investment tax incentive regime, reducing the scope of exemptions that can be granted by decree, and narrowing tax exemptions that are allowable in concession agreements. The Liberia Revenue Authority is also pursuing a more systematic audit of large companies, coupled with more efficient processing and cross-checks of tax filings.

12. Work continues to enhance and strengthen public financial management (PFM). This includes advancing the Treasury Single Account (TSA) project including putting requisite structures in place at the central bank. Many of the 509 accounts of ministries, public agencies, and public commissions (MACs) at commercial banks have been closed or identified as donor-project accounts (which are outside the TSA perimeter). Once requisite systems are ready the intention is to make the TSA fully operational with the rest of the non-donor bank accounts of MACs at commercial banks closed by end September 2022, transferring their balances to the central bank; except for the 45 accounts for institutions that operate in regions of the country where the Central Bank of Liberia (CBL) has limited presence and are intended to support regional fiscal decentralization. The General Audit Commission is also validating past arrears claimed by vendors.

Monetary Policy

13. The authorities have kept the monetary policy rate at 20 percent since August 2021, well above inflation which averaged 7.8 percent in 2021 and ended the year at 5.5 percent. Given excessive dollarization, the share of money that is under the direct control of the central bank is limited, constraining the central bank's ability to contain inflation by tightening monetary conditions. The authorities have thus had to resort to a very high policy rate to achieve disinflation and ensure that monetary policy remains geared towards price stability. The authorities continue to monitor inflation closely alongside exchange rate developments, given recent external price pressures, and remain committed to single digit inflation in the medium term, targeting 5 percent.

14. De-dollarization will be needed for meaningful monetary policy autonomy, while also facilitating the accumulation of foreign reserves and increasing seigniorage. In this regard, the first phase of the currency changeover is being rolled out, while modifications are also being made to the implementation plan for the next phase to ensure a similarly successful roll out. This in turn will support longstanding plans to modernize the monetary policy framework, which include adopting a flexible reserve money operating target framework and using interest-rate based instruments to implement monetary policy in the short term,

resuscitating the interest rate corridor system, and conducting auctions for longer term CBL bills at a variable rate tender not later than June 2023, in preparation for transitioning to a full-fledged interest-rate based framework. A Monetary Policy Committee with responsibility for formulating monetary policy, will be constituted.

Financial Sector Policies

15. While the banking sector as a whole remains relatively stable, and system level regulatory capital and liquidity requirements are met, vulnerabilities remain with challenges at various banks. Remedial measures are being taken to address high non-performing loans (NPLs) that exceed the10-percent NPL ratio threshold in almost all ten banks. The CBL will require banks to report quarterly on NPL developments and progression, and will strictly enforce provisioning regulations, including the write-off of NPLs that are older than three years. It will resume enforcing penalties for violations of reserve requirements in the third quarter of 2022. In the interim, non-compliant banks will continue to be subject to other supervisory measures. Additional capital injections will be required as needed. The CBL is also exploring options to aid banks' recovery and may apply regulation to disallow delinquent borrowers from the use of any banking services, in consultations with banks. The recommendations of the IMF CD mission on financial soundness indicators will be implemented to help address data issues.

16. Measures to reform the Liberian Bank for Development and Investment (LBDI) continue, with the government's US$31 million capital injection and the appointment of a new CEO being important milestones. Attention will be given to preserving liquidity and containing operating costs. The alignment of LBDI's books with supervisory findings is well advanced and priority is being given to strengthening record keeping at the bank, NPL collections, and improving underwriting standards. Plans will continue to attract additional investors and secure enough capital and liquidity to expand operations and shift the strategic orientation.

17. Once the Financial Institutions Act (FIA) is submitted to the Legislature in September 2022 and adopted thereafter, CBL will have a wide range of powers to deal with distressed banks, and authority to impose supplementary capital buffers. The FIA will also enable a stronger bank resolution regime. A framework and a manual for supervisors on risk-based supervision is in the works and will be approved by the CBL Board. Guidelines have been sent to banks for final comments ahead of issuance around September.

Structural Reforms

18. Governance continues to feature prominently in the authorities' reform agenda, as also reflected in the national development plan. A major advance in the fight against

corruption has been the approval by the Legislature of the legislative package strengthening governance institutions and improving their transparency, alongside requisite amendments to the Liberia Anti-Corruption Commission Act (LACC), the Code of Conduct, and the Whistleblower and Witness Protection Act. The amended LACC optimizes integrity and impartiality in the appointment process for Commissioners, among other things, and this revised process is now being used.

19. Significant progress has also been made in improving transparency. The Public Procurement Commission's (PPCC) publication of awarded contracts and associated key information for FY2020/21 is almost completed and that of contracts pertaining to the 2021 special budget is under way. New procedures have been adopted with MACs required to submit contract information in a timely manner to secure funding. Going forward, bidders will be required to disclose beneficial ownership information and to record this in the PPCC's vendor registry; and beneficial ownership of companies winning public contracts will be published. In the meantime, the Liberian Business Registry is helping PPCC determine beneficial ownership of companies that recently won public contracts. Progress is also being made in government operations transparency with a view to improving the quality and timeliness of the government's audited annual financial statements. The audit report for the FY2019/20 budget has been submitted to the Legislature while that for the FY2020/21 budget will be submitted by end-September 2022; meanwhile the government is committed to addressing shortcomings identified in audit reports.

20. On the investment climate and challenges related to cross-border trade, authorities are taking deliberate steps to reduce the number of checkpoints and improve trading outcomes. They will revitalize a digital, decentralized one-stop shop at the Liberia Business Registry (LBR) to improve the registration process for businesses and ensure a seamless business registration process, aligning business registration systems between the LBR, Liberia Revenue Authority, the Ministry of Finance, and the Ministry of Commerce and Industry. Authorities also aim to facilitate digitalization with training for judges and ensure consistent access to reliable electricity in commercial and other courts, to bolster judiciary efficiency.

21. The authorities appreciate the Selected Issues Paper (SIP) on climate change and hope to be considered for Resilience and Sustainability Trust support in a timely manner. As noted in the SIP, Liberia is ranked among the most vulnerable (174th out of 182 countries) in terms of its lagging in climate adaptation readiness and the authorities are concerned at the extent to which this will place the country's systems and sustainable development at risk, and the disproportionate impacts on poorer parts of the population. Given its high vulnerability classification, Liberia undertook climate readiness and risk

assessments to inform adaptation needed to limit economic impacts on the poor and in coastal zones, agriculture, waste management, forestry and fisheries (critical to food and health security), among others, putting together the 2020-2030 National Adaptation Plan with support from UNDP. The authorities intend to act on priority areas identified in the Plan, building resilience and prioritizing scaling up interventions toward climate change adaptation, setting up accountability arrangements needed to unlock international support, including climate change considerations in public investment decisions, and progressing swiftly with measures requiring few financial resources such as climate conscious zoning and extension services.

Conclusion

22. Notwithstanding mounting global uncertainty and rising commodity prices, our Liberian authorities remain committed to maintaining macroeconomic and financial stability while sustaining recovery and facilitating inclusive and sustainable growth with prudent policies and reforms, anchored by development objectives articulated in the Pro-Poor Agenda for Prosperity and Development (PAPD) and the ECF program. They appreciate the soundness and quality of the tailored advice from the Fund and the valuable supporting capacity development.