

## Letter of Intent

Monrovia, June 1, 2020

Ms. Kristalina Georgieva  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Ms. Georgieva,

**1. Since adopting an ECF-supported program in December 2019, Liberia has been fully committed to reforms aimed at leaving behind a prolonged period of economic stagnation.**

The need for reform built up over a number of years, as our economic position suffered from a series of exogenous shocks—including to commodity prices, the departure of our UN peacekeeping force, and the outbreak of Ebola—with the situation exacerbated by less-than-optimal economic management. Nonetheless, over the four months following program inception, we made impressive steps towards regaining macroeconomic stability, establishing greater fiscal control and transparency, and laying the foundations for a re-igniting of the growth needed to improve the living conditions of our population, the majority of whom continue to exist in poverty and want. Much remains to do, however, as inflation remains high, fiscal resources are too tight to satisfy demand for investment in both physical and human infrastructure, and governance issues persist. Nonetheless, with the ECF arrangement providing an appropriate policy framework, we believed up to recently that perseverance with the program would be sufficient to advance us towards our development goals.

**2. The appearance of the COVID-19 global pandemic changed this perception.** Since Liberia discovered its first case of the virus in March 2020, the number of cases has increased to more than 200, and the authorities have adopted serious containment measures. In addition to mandating a two-week quarantine period for returning travelers from infected areas, on March 21, 2020 we issued severe social distancing rules, including closure of all schools, night clubs, cinemas, beaches, spas, and places of worship; banning of all street selling and gatherings of more than 10 people; limits on admittance to banks and restaurants to five customers kept six feet apart; social distancing for health facilities and pharmacies (which are to remain open); mandatory washing of hands with soap and clean water at all establishments; and, in addition, a hotline has been established for use by the population to report those exhibiting COVID-19 symptoms. So far, the number of confirmed cases remains quite small. However, we are fully cognizant that should these numbers experience the same exponential growth as they have in other countries, our health care system—inadequate in the best of times—would be quickly overwhelmed. In recognition of

this vulnerability, we will shortly initiate a complete lockdown of the hardest hit areas of the country, including Montserrado County.

**3. We anticipate that the economic effects of the crisis on Liberia will be severe.** The full impact is not known, but GDP growth for 2020 is projected at -2½ percent, a 3 percentage point downward revision compared to pre-COVID-19 expectations. While the terms of trade shock has so far been positive—prices of imported fuel declined much more than those of our export commodities—the general lockdown abroad and at home, combined with suspension of aid-related travel is adversely affecting the hotel and related service sectors. Revenue shortfalls for this fiscal year had already emerged before the arrival of the virus and were met with a reduction in budgetary allocations. However, additional COVID-19-related shortfalls are now anticipated to reduce this fiscal year’s revenues by a further ¾ percent of GDP (US\$17 million). Looking ahead to FY2021, increasing revenue shortfalls and the need for some additional COVID-19-related spending will likely produce a cumulative fiscal gap of about 3½ percent of GDP across both fiscal years. Complicating next year further, a sharp contraction in capital inflows, including a reduction in official financing of infrastructure projects, is expected to more than offset the improvements in the current account, and increase our balance of payments need by 5.3 percentage points of GDP. The banking system will also suffer, but with magnitudes difficult to predict. While the system labors under a large stock of nonperforming loans, loan provisioning was broadly adequate up to the time the COVID-19 pandemic began. We anticipate, however, that the quality of assets could deteriorate significantly as the crisis adversely impacts the cashflows of many borrowers. For the present, however, despite heightened US dollar liquidity risks in some banks—which our proposed program will address—the sector remains largely stable.

**4. Against this dire background, we are requesting emergency funding from the IMF under the Rapid Credit Facility (RCF) to finance our urgent balance of payment needs which have partly arisen from a deteriorating fiscal position.** Specifically, we are requesting support equivalent to SDR 36.176 million (14 percent of quota, about US\$49 million). While we would ask that these funds be disbursed to the Central Bank of Liberia (CBL), considering the sizable fiscal gap we face, we further ask that this support be made available to our fiscal budget by having it on-lent by the CBL to Government on the same terms and currency composition as obtained from the IMF. We have already prepared, in consultation with Fund staff, a memorandum of understanding (MOU) between the Government and the CBL stipulating responsibilities for servicing financial obligations to the IMF. In order for the World Food Programme (WFP) to help us execute our large-scale program of in-kind food assistance for 2.5 million of our most vulnerable citizens in all the 15 counties we will, upon receipt of the RCF funds, immediately transfer US\$25 million to the WFP (less any advances already transferred from the Government of Liberia for this purpose). The recast budget approved by the Legislature also incorporates additional measures aimed at supporting poor households during the lockdown. These include appropriating US\$2 million to pay electricity and water bills for poor households consuming below specific thresholds per month, and

US\$2 million to provide support to market women and petty traders. We note that this support would be in addition to IMF debt relief that could be provided under the Catastrophe Containment Relief Trust (CCRT) and for which we take this opportunity to express our gratitude. We are also requesting the Debt Service Suspension Initiative (DSSI), supported by the G-20 and the Paris Club, while remaining committed to spending the freed resources on COVID-related health or economic relief; disclosing our public sector debt to the IMF; and not contracting any new non-concessional debt during the suspension period.

**5. Based on the expectation of your support, we have prepared a set of policies to protect our economy and people from the worst of the COVID-19 effect.** On the fiscal side, in FY2021 we expect a combination of IMF disbursements, generous additional budget support from our major donors, and moderate cuts to wages, subsidies and capital spending to largely compensate for lost revenue, allowing health and social safety net spending in our FY2021 budget to approximate the level anticipated under our ECF-supported program. Within this envelope, however, we intend to substitute US\$10 million (¼ percent of GDP) of above the line current spending for below the line clearance of outstanding domestic arrears to support the private sector in these difficult times. With respect to monetary policy, the existing shortage of Liberian dollar banknotes and lack of confidence in the banking system, significantly elevate risks to our external buffers and limits our ability to respond to the crisis. However, we are working towards remedying these by moving ahead with the printing of additional banknotes, with the first shipment expected by early July. The IMF staff has advised us to also make provision in our fiscal program for the buyback of US\$15 million of government bonds to allow for immediate injection of additional much-needed US dollar liquidity into our banking sector. An alternative solution would be to proceed with a private bank's bond discount facility (BDF), though it poses heightened debt sustainability risks. Government currently favors the latter alternative based on the scale of the liquidity constraints banks face, but discussion will continue in the weeks ahead in the context of the formulation of the FY2021 budget. To adequately safeguard financial stability, the CBL will pursue measures consistent with the understandings reached under the Extended Credit Facility (ECF) arrangement to ensure that any emerging risks to the banking sector are addressed in the near-term. On the prudential side, in recognition of the virus' adverse impact on private sector cashflows and on the quality of banking sector assets, the CBL will permit financial institutions some additional and reasonable flexibility on a case-by-case basis to solvent borrowers in hard-hit sectors experiencing temporary liquidity shortfalls, but will maintain loan reporting, classification, and provisioning standards to avoid compromising information on loan quality. However, in the interests of prudence, in exchange for this latitude and for the period it persists, banks will be required to forego paying shareholder dividends or executive bonuses.

**6. We are also in the process of implementing a number of policy measures that are needed to mitigate somewhat the projected large shortfall in revenue.** We view these actions as appropriate to the very difficult economic situation we face and expect that their implementation

will help significantly to safeguard and augment scarce resources, as well as provide the Fund with assurance that its resources will be used appropriately. They include (i) ensuring proper monitoring and control of all expenditure in the months ahead by mandating that all advance-reporting agencies revert to using the government's Integrated Financial Management Information System (IFMIS) for all purchases beginning July 1, 2020; (ii) the government publishing weekly spending reports and non-compliant institutions' unreconciled spending amounts on the MFDP website effective immediately; (iii) having safeguarded additional revenues by enacting the necessary legal arrangements to ensure that, beginning with the FY2021 fiscal year, 100 percent of all revenues accruing to the Liberian Maritime Authority (LMA) and the Liberian Telecommunications Authority (LTA) from all sources are collected by, and flow directly to, the Liberian Revenue Authority—with the sole funding source of all operating and capital expenses of the LMA and LTA in FY2021 restricted henceforth to formal lump sum allocations in the FY2021 national budget; and (iv) preserving the revenue base by enacting in May 2020 a 30 cent per gallon excise tax on fuel products—given the recent decline in the world oil prices, we expect this measure to yield 1.2 percent of GDP of additional revenue without necessitating an increase in the retail price of fuel. We will submit a budget for FY21 consistent with these measures and other understandings reached with IMF staff.

**7. Given the need for transparency and accountability in the use of resources, we commit to having the General Audit Commission conduct a post-crisis audit of all the crisis response spending within a year of the approval of the RCF disbursement.** This action will not only ensure that the crisis spending is not wasted but will also provide lessons that will be needed to further strengthen our existing systems to effectively respond to crisis situations as well as public sector spending more broadly in the post-crisis period. For transparency, we will publish the results of the audit online within two weeks of its finalization. We will also publish on the government's website all procurement contracts paid from the budget in the remainder of FY2020 and all of FY2021 above a value of US\$200,000 for goods, above US\$400,000 for works, and above US\$100,000 for services, along with the names of the companies awarded the contract, their beneficial owners, and validation of delivery of the goods and services specified in the contracts.

**8. We remain committed to the goals and policies contained in our ECF-supported program, and look forward to completing the first review once the COVID-19 situation eases.** Our focus over the few months will need to be on short-term macroeconomic and fiscal stability and crisis response. However, looking ahead, in consultation with IMF staff, we have already clearly identified the actions necessary to bring our ECF-supported program back on track. We want to return quickly to the growth and macroeconomic trajectory outlined in our ECF-supported program, as we continue to regard this framework as both appropriate and necessary for the underpinning of our medium-term development plan, the Pro-Poor Agenda for Prosperity and Development, and will continue to seek donor assistance in support of this plan.

**9. We believe that the measures and policies outlined in this letter are enough to address the immediate priorities required by the pandemic.** We will use the resources provided by the Fund in a manner consistent with the understandings reached and welcome the planned ex-post audit of such use in about a year's time. We covenant that we will not introduce measures or policies that worsen the balance-of-payments position, and that we will not impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance-of payments purposes, or multiple currency practices, or enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement. Should the measures and policies we have adopted prove insufficient to their aims, we will take additional measures necessary to achieve those ends and will consult with the IMF on the adoption of such additional measures prior to any revision. We will also provide Fund staff with all information they require to monitor our economic situation on a regular and timely basis, including by continuing to provide all the data stipulated in the Technical Memorandum for the ECF-supported program (IMF Country Report No. 19/381). We will also, as far as is practical, share any other information that may be necessary to evaluate and understand our economic situation.

**10. In line with our commitment to transparency, we authorize the IMF to publish this document, and the related staff report, data tables, and debt sustainability analysis report on its website and other media once the RCF disbursement is approved.**

Sincerely,

\_\_\_\_\_/s/\_\_\_\_\_  
 Hon. Samuel D. Tweah, Jr.  
 Minister  
 Ministry of Finance and Development Planning

\_\_\_\_\_/s/\_\_\_\_\_  
 Hon. J. Aloysius Tarlue, Jr.  
 Executive Governor  
 Central Bank of Liberia

**Table 1. Liberia: Prior Actions for RCF, 2020**

<b>Measure</b>	<b>Macroeconomic Justification</b>	<b>Scheduled Completion Date</b>
Passage of a credible FY2020 recast budget consistent with understandings reached with IMF staff.	Help to ensure that the approved budget is in line with credible revenue projections and emergency response	The recast budget was passed by the Legislature on [date].
Begin publishing weekly spending reports, including unreconciled spending amount, on the MFDP's website.	Help to improve tracking, accounting, and reporting of emergency response spending. This helps to ensure greater public expenditure efficiency.	MFDP started publishing weekly reports on May [21].