



LIBERIA

October 2024

REQUEST FOR A 40-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBERIA

In the context of the Request for a 40-Month Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 25, 2024, following discussions that ended on August 23, 2024, with the officials of Liberia on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on September 13, 2024.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Liberia.

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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International Monetary Fund
Washington, D.C.



Liberia: IMF Executive Board Approves Forty-Month US\$210 Million Extended Credit Facility Arrangement

FOR IMMEDIATE RELEASE

- The IMF Board approved an SDR155 million (about US\$210 million) ECF arrangement for Liberia. This decision will enable an immediate disbursement of SDR4.3 million (about US\$5.8 million).
- The 40-month financing package will support the authorities' Economic Reform Agenda (ARREST) to address macroeconomic imbalances, strengthen debt sustainability, and lay the foundations for higher, more inclusive, and private sector-led growth, beyond the enclave sector.
- The ECF arrangement is expected to catalyze additional external financing from international financial institutions (IFIs) and development partners.

Washington, DC – September 25, 2024: The Executive Board of the International Monetary Fund (IMF) has approved a 40-month arrangement under the Extended Credit Facility (ECF) for Liberia, amounting to SDR155 million (60 percent of the quota, or approximately US\$210 million). This support aims to assist the authorities in their reform efforts to address macroeconomic imbalances and establish a foundation for increased private-sector-led growth beyond the natural resource sector. With the Executive Board's approval of the arrangement, an immediate disbursement of SDR4.3 million (about US\$5.8 million) will be made, helping Liberia meet its ongoing balance of payments needs, primarily due to significant and widening development gaps.

The authorities' economic program, supported by the 40-month ECF arrangement, envisages a comprehensive policy package to strengthen fiscal sustainability and create fiscal space for investment. This will begin with rationalizing unproductive spending, followed by efforts to mobilize domestic revenue. This policy package is intended to help mitigate debt vulnerability and foster more robust and sustainable growth. Key policies outlined in the program include: (i) reducing unproductive spending, (ii) implementing new tax measures, including a Value Added Tax (VAT), and streamlining extensive tax expenditures, (iii) increasing priority public spending, particularly on basic infrastructure, and (iv) enhancing financial stability by addressing the issue of non-performing loans. A critical goal of the authorities' reform program is to preserve and enhance social spending, especially in the education and health sectors.

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

"Liberia's economic vulnerability has worsened in recent years. Fiscal slippages have compromised public debt sustainability, contributing to a sharp decline in international reserves. Governance weaknesses have also persisted. To address these challenges, the new authorities that took office in early 2024 have requested a 40-month arrangement under the Extended Credit Facility to support a broad-based reform agenda.

“The Liberian authorities are appropriately prioritizing restoring fiscal credibility. They are focusing on reducing unproductive spending and shifting resources toward public investment while protecting social spending. Over the program period, the authorities should continue to strengthen fiscal discipline and improve domestic revenue mobilization, including through the introduction of the VAT and the reduction of generous tax incentives.

“It will also be important to significantly improve the authorities’ debt management capacity. It is crucial to continue to seek concessional loans and grants to create fiscal space for critical infrastructure development.

“Given the significant challenges in the financial sector, it is imperative that the new Banking and Financial Institutions Act be adopted expeditiously to provide for modern bank supervisory and resolution frameworks. Other vital reforms also need to be put in place to strengthen the banking sector.

“Building on recent progress, the Central Bank of Liberia (CBL) needs to continue to improve its governance to bolster its independence and credibility. It is also important to strengthen the monetary policy framework.

“The authorities are firmly committed to revitalizing the reform agenda to support macroeconomic stability, promote broad-based economic development, and reduce widespread poverty. Comprehensive structural reforms, including improvements in governance and transparency, are critical for achieving these objectives. Maintaining strong program ownership, supported by capacity development, will be crucial to ensure program success and continued donor support.”



LIBERIA

REQUEST FOR A 40-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

September 13, 2024

EXECUTIVE SUMMARY

Context. Liberia's real per-capita income is still about a third of the level prior internal conflicts. Notwithstanding the strong economic rebound recorded after the pandemic, a large infrastructure gap has remained, and the expected domestic revenue mobilization has not materialized. These two factors have posed significant economic and fiscal challenges in the short and medium term. The implementation of the 2019-23 Fund-supported program was mixed, with a strong start followed by a disappointing performance ahead of the recent presidential elections. To address current and future challenges, fiscal discipline needs to be restored, governance vulnerabilities addressed, and the Central Bank of Liberia (CBL) governance, independence, and supervisory role strengthened. Therefore, scope for deviation from the established policy and reform agenda is very limited given the implications to debt sustainability and capacity to repay the Fund.

Outlook and risks. Economic growth is anticipated to be robust, despite considerable fiscal adjustments in the near term, and is expected to pick up pace in the medium term, bolstered by the projected growth in mining activities. Inflationary pressures are being kept in check, thanks to a prudent monetary policy and a stable exchange rate. However, there are significant downside risks, including fluctuations in commodity prices and ongoing governance issues, which could negatively impact investments in the extractive sector and the potential for international financial support for development.

Request. The authorities have requested Fund support in the form of a 40-month arrangement under the Extended Credit Facility for a total amount of SDR155 million (60 percent of quota) to support the implementation of policy reforms through end-2027. The reforms aim at restoring macroeconomic stability, and anchoring the new national development strategy, which will provide a solid foundation for creating jobs and tackling poverty.

Main policy commitments:

- **Restoring fiscal sustainability and reducing debt vulnerabilities.** The immediate focus of the program is on restoring fiscal sustainability by cutting unproductive spending, largely goods and services (G&S), that led to a substantial fiscal deterioration

in the last couple of years. This will be followed by a medium-term revenue mobilization strategy, aimed at tackling large tax expenditure and expanding the tax base by, *inter alia*, operationalizing the VAT legislation. The overall objective is to strengthen debt sustainability and preserve the moderate risk rating of the Liberia's debt sustainability analysis.

- **Rebuilding external buffers.** The envisaged fiscal consolidation during the program will contribute to the targeted rebuilding of external buffers. The implementation of ambitious structural reform agenda and more effective public investment committed under the program will enhance external competitiveness in the long run.
- **Strengthening governance including CBL independence.** The implementation of governance reforms will be initially guided by measures identified in previous programs and capacity development engagement, followed by the findings of the upcoming Governance Diagnostic Study (GDS). The GDS will help identify and address key governance shortcomings and vulnerabilities, including in the rule of law, Public Financial Management (PFM), revenue administration, and the Central Bank of Liberia (CBL) governance. A swift implementation of the main recommendations from the CBL compliance and forensic audit reports will enhance its independence and *modus operandi*, while preventing the re-occurrence of unlawful CBL budgetary financing, like in 2023. In parallel, important reforms in the financial sector will be crucial to enhance financial stability.
- **Restarting and accelerating the implementation of the unfinished structural reform agenda.** Guided by the new national development strategy (ARREST), the authorities are committed to undertaking important structural reforms aiming at supporting the expansion of the economic activities outside the extractive sector, enhancing financial sector stability, tackling key structural bottlenecks in the business climate. These are all key ingredients for a higher, sustainable, and inclusive growth.

Approved By
**Montfort
 Mlachila (AFR)
 and Bjoern
 Rother (SPR)**

Discussions were held from June 22 to July 5, 2024, in Monrovia, Liberia, followed by a brief virtual mission on August 22-23. The staff team comprising Mr. Kim (Head), Mr. Cipollone, Mr. Molise, Mr. Okamoto (all AFR), Mr. Otero Fernandez (MCM), Ms. Batsuuri (SPR), Mr. Abdychev (Resident Representative.), and Mr. Deline (Economist, Resident Representative Office) held discussions with Minister of Finance and Development Planning Kamara, Central Bank Executive Governor Tarlue, and senior government and central bank officials. Mr. Kangur (SPR), Mr. Matsumoto (AFR), and Mr. Palermo (MCM) contributed to the initial program design discussions. Mr. Otero (AFR) provided research support and Mr. Magno helped with the preparation of this report.

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CONTEXT

1. Liberia’s economic and social situation has experienced modest improvements in recent years. Despite continuous economic growth, the per-capita income has not risen proportionately, thus leaving a significant share of the population in poverty. Moreover, efforts to bolster capital investment has been disappointing, and domestic revenue mobilization has seen a decline in the past two years. Recent lapses in governance, in particular concerning unlawful central bank budgetary financing and weak control over budget execution, have severely eroded the country’s policy credibility, including among development partners. The steady reduction in external grants—from 14 percent of GDP in 2018 to 6 percent in 2023¹—also partly mirrors the waning trust and confidence of the international community.

2. Liberia continues to struggle with the challenges of weak institutions and widespread corruption. Early years under the 2019 ECF arrangement have seen positive developments, such as the establishment of the Liberia Anti-Corruption Commission (LACC) and the appointment of its members, alongside the enactment of the Central Bank of Liberia (CBL) Act. However, issues such as the CBL monetary financing operations, the fiscal mismanagement in 2022-23, and repetitive violations of the public procurement law evidenced worsening governance in the past two years. These instances highlight a crucial lesson: the mere introduction of reform measures does not automatically result in tangible improvements.

3. Since the new administration assumed power, it has undertaken a series of steps to restore the credibility, necessary for a successor arrangement. Upon taking office January 2024, the new administration quickly implemented several key measures, outlined in the 100-days deliverables agenda, aimed at tackling immediate policy challenges. The timely implementation of such remedial actions has also provided the Fund and other development partners with adequate assurances of the new government’s commitment and ability to implement an ambitious reform program effectively.

4. The authorities requested a new ECF arrangement with access of SDR 155 million (60 percent of quota). Liberia has benefitted from extensive use of Fund arrangements, including the large debt relief in 2010. Fund’s financial support provided in 15 of the past 17 years left Liberia with substantial exposure to the Fund. To implement strong policy and revive and accelerate the reform agenda, the new administration has requested a new ECF arrangement. The proposed 40-month arrangement aims at supporting the new government’s multi-year policy reform agenda, known as ARREST,² and aiding in securing additional external financing from IFIs and bilateral donors. The peaceful transition of power and the current stable political climate offer an excellent opportunity for the successful implementation of the new government’s ambitious reform agenda.

¹ This includes the recent IDA-20 policy lending decision to replace grants with highly concessional credits.

² The government’s “ARREST” development plan focuses on: Agriculture, Roads, Rule of Law, Education, Sanitation, Tourism. This plan forms the foundation for the new Medium-term National Development Plan and will underpin the government’s efforts to achieve the Sustainable Development Goals by 2030.

The timely and comprehensive implementation of the ECF-supported program will help minimize risks to debt sustainability and enhance Liberia's capacity to repay.

5. A Peer-Reviewed Assessment (PRA) has identified several valuable lessons from the 2019 ECF. The PRA (Annex I) highlighted the uneven implementation of the program with a promising start, followed by a sharp deterioration and limited traction during the final 18 months. A lack of ownership was identified as the primary reason for the program's unsatisfactory implementation. Going forward, while maintaining adequate program ambition, it is important to ensure that program design and conditionality are not only appropriately tailored to the country's limited capacity but also adaptable to rapidly changing situations. Developing contingency plans is crucial to mitigate the risk of ownership's erosion in some areas.

RECENT ECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

6. Economic growth is expected to continue and accelerate in the medium term (Figures 1 and 2 and Table 1). Liberia has sustained an average GDP growth of 4.7 percent in 2022-23, with a projected acceleration to 5.1 percent in 2024 (Table 1), which is supported by recent high-frequency data. Inflationary pressures are easing at a faster pace than expected while exchange rate has remained stable (L\$190 per US\$). Up to August 2024, the fiscal position remains in line with the supplementary budget, with satisfactory revenue collection and recurrent expenditures running at slower pace than projected. The medium-term prospects remain favorable, though heavily dependent on extractive sector activities. Growth is expected to reach 5.8 percent in 2025 and 6.0 percent over the medium term, primarily supported by strong growth in mining activities, a recovery in the agriculture sector, and sustained growth across other sectors. Robust growth in mining activities will benefit from large-scale investments (of around 30 percent of GDP) in the iron ore mining industry and prospective increase in production. Iron ore production is projected to double in the medium term and triple by 2030. Additionally, substantial infrastructure investments, supported by development partners, including enhancements in electricity generation, are set to stimulate domestic production through improved electricity supply. This, in turn, will have positive ripple effects across the economy, fueling further growth in the medium term. Inflation is declining rapidly and expected to reach 6.6 percent by end-2024 and further decrease gradually to 4.8 percent by 2027, supported by a prudent monetary policy, a stable exchange rate and envisaged moderation in import prices. The real effective exchange rate, while overvalued, is expected to improve owing to decreasing inflationary pressures (Annex II).

7. External vulnerabilities have increased due to a weakened external position and low international reserve coverage. The current account deficit (including grants) widened to almost 26.4 percent of GDP in 2023, with gross official reserves dropping to US\$486 million, equivalent to 2.1 months of import (Box 2). The program implementation aims to rebuild reserves to 3½ months of imports by end-2027, facilitated by an accelerated fiscal consolidation and gradually increased use of the local currency for public salaries. Given the significant import content of external grants

and project loans, the actual reserve coverage, excluding those tied to external financing, will be considerably higher. Large-scale investments in iron ore mining financed from abroad will boost exports and improve the current account balance, despite a projected temporary deterioration during the construction phase. The current account deficit will remain fully financed by stable capital inflows, particularly FDI and IFIs' concessional loans (Annex II).

8. The robust medium-term outlook is subject to downward risks stemming from both external and domestic factors. Should new mining concession agreements be successfully implemented, they would alleviate some downside risks to exports. However, like for countries reliant on a significant extractive sector, Liberia is vulnerable to commodity price fluctuations, which could prompt investors to withdraw or scale back their investments in the sector. Poorly negotiated mining concessions could undermine governance, fuel corruption, and cause excessive volatility in fiscal revenues. A failure to restore the policy creditability could endanger macroeconomic stability and negatively affect the growth prospects. Insufficient fiscal consolidation could seriously undermine the objective to preserve debt sustainability as well as maintain its moderate risk rating on external debt. Additionally, challenges with the banking sector, highlighted by persistent high levels of non-performing loans, could further undermine growth prospects. The limited authorities' implementation capacity and weak institutions represent considerable implementation risks. The expected peaceful political and social environment—the next presidential election will be in 2029—will help mitigate such risks.

PROGRAM OBJECTIVES

The proposed ECF arrangement aims to achieve the following key objectives:

9. Regaining fiscal sustainability, reducing debt vulnerabilities, and boosting investment.

The fiscal consolidation strategy has a dual focus (i) immediate rationalization of unproductive expenditures, followed by (ii) a gradual and sustainable increase in revenue mobilization. The overarching objective is to strengthen the debt sustainability, by reducing the present value (PV) of debt below 35 percent of GDP. Curtailing unproductive spending and increasing revenue will create fiscal space for new infrastructure investments. Enhancing fiscal sustainability will help restore confidence among IFIs and bilateral donors, crucial for financing vital large infrastructure projects.

10. Rebuilding external buffers. The 2023 international reserve depletion, combined with a deteriorated current account deficit, has further weakened Liberia's external position. The Fund-supported program aims to rebuild external buffers, crucial for enhancing economic resilience against shocks and preserving financial sector stability in a highly dollarized economy.³

11. Revitalizing the structural agenda for broad-based development. Despite robust economic growth driven mainly by the extractive sector (iron ore and gold) in the past decade, other sectors have seen limited progress in economic activity, job creation, and human

³ The dollarization of commercial banks' assets and liabilities is close to 80 percent.

development. The government plans to mobilize revenue through enhanced domestic revenue mobilization and a more appropriate taxation system for future concession agreements. This additional revenue will be used to finance the rehabilitation of key infrastructure, which would stimulate private sector investments beyond the current enclave areas.

12. Addressing governance and institutional challenges. Recent governance issues have underscored the urgency of accelerating governance reforms and enhancing transparency in areas such as tax administration, budget execution, procurement. These reforms, initially based on identified measures by the previous program and CD activities and later guided by the findings of the Governance Diagnostic Study (GDS) (planned for mid-2025), will facilitate ongoing dialogue with development and business partners. The program will develop specific policy agenda to support growth and reduce poverty, aligning program priorities with the growth objectives of the forthcoming national development plan.

KEY POLICY MEASURES UNDERPINNING THE PROGRAM

A. Fiscal Policy: Restoring Fiscal Sustainability and Reducing Debt Vulnerabilities

13. The fiscal situation significantly worsened during 2022-23. The decline began in the second half of 2022 but became markedly worse during the 2023 presidential election campaign (Box 1). The revenue-to-GDP ratio dropped to 13.4 percent, not only lower level than that at the beginning of the 2019 ECF (13.9 percent of GDP) but also well below the program targets for 2023 (15 percent of GDP). The measures proposed to underpin the 2023 supplementary budget (Text Table 1) were neither adopted nor implemented. Additionally, budget allocations among Ministries, Agencies, and Commissions (MACs) were often substantially revised without the required Legislature's approval. This pattern highlights the need for strong enforcement of the PFM legislation in relation to the budget preparation, execution, and monitoring processes.

Text Table 1. Liberia: 2023 Tax Measures that were not Implemented

	Yield	
	(In US\$ million)	(Percent of GDP)
	Full-Year	Full-Year
Revenue measures	43.7	0.92
Reintroduction of lapsed import surcharges	10.0	0.21
Restoration of petroleum excise from 15 to 20 cents per gallon	2.7	0.06
Reduction of investment incentives (exemption only for duties and GST on machinery & equipment; no top-ups by the Legislature)	16.1	0.34
Change from exemption to rebate regime for effects of Liberian returnees	0.5	0.01
Change from exemption to rebate regime for petroleum imports under concessions	5.0	0.11
Enforcement of duty and tax collection on cars imported by MPs	3.0	0.06

Source: IMF staff estimates.

Box 1. Liberia: 2023 Budget Execution

By as early as May 2023, the budget execution revealed low revenue collection, high spending, and constrained financing. To maintain the program targets supported by the ECF, a supplementary budget was adopted during the summer with an adjustment estimated at 1 percent of GDP (US\$44 million), evenly split between revenue enhancement and spending cuts.

Revenue measures included narrowing tax expenditures, reintroducing the import surcharge, and raising the petroleum excise from 15 to 20 cents per gallon. **On the expenditure side,** significant reductions were made in goods and services spending. Additionally, to improve the budget execution, the authorities committed to revamping the Treasury Management Committee to ensure monthly cash plans matches budget allocations with available resources, primarily revenues.

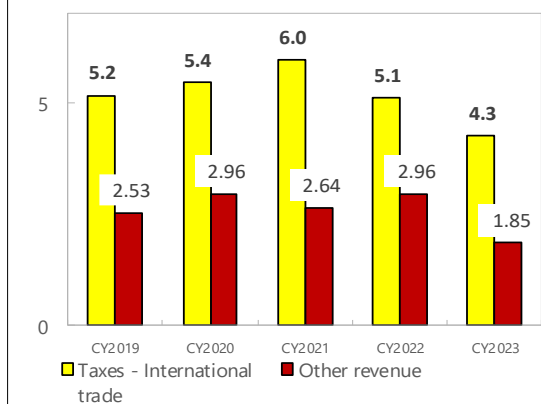
Despite these measures, revenue and spending performance worsened in the second half of 2023. Revenue collection fell short, and goods and services spending surged, nearly doubling the original budget in the run-up to the Presidential elections. This shortfall represented 1.5 percent of GDP.

Goods and services expenditures significantly exceeded the budget, particularly within the National Security Agency and Legislature, leading to a primary deficit of 4.2 percent of GDP, far exceeding the program target of 0.4 percent of GDP. The lack of financing led to the accumulation of new debt service arrears.

To bridge the financing gap, the government resorted to the loans from the CBL (US\$83 million). This action not only violated the conditions of the 2019 ECF arrangement but also Liberia's domestic laws, as confirmed by the recent compliance report conducted by General Auditing Commission.

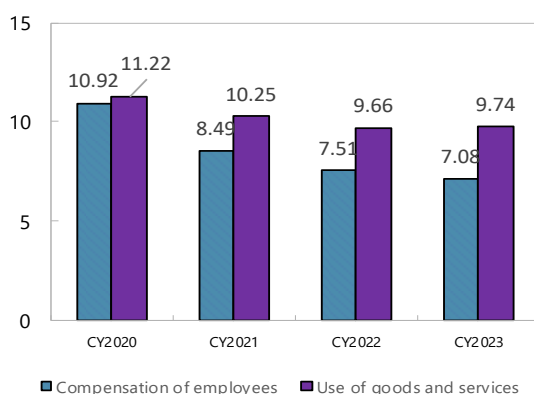
Liberia: Revenue from International Trade Taxes

(Percent of GDP)



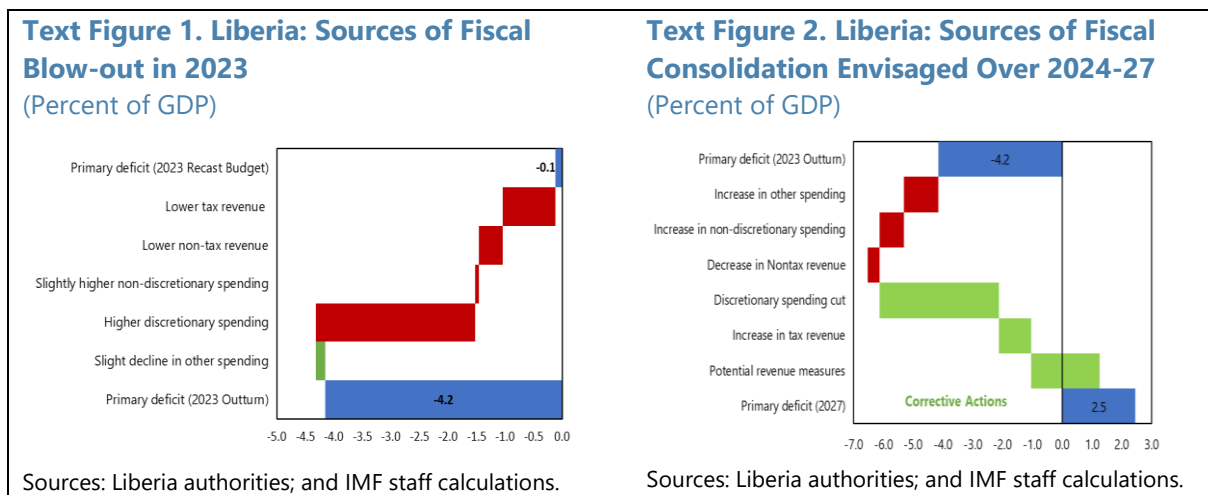
Liberia: Expenditure Composition

(Percent of GDP)



14. Restoring fiscal sustainability is a priority. The authorities agree with the staff's assessment that the prior fiscal path was unsustainable and urgent consolidation is needed. Under the ECF, the authorities aim for a fiscal adjustment of 6.6 percent of GDP by 2027, balanced between spending cuts (mainly in 2024) and revenue mobilization (2025-27). The authorities' fiscal anchor is a gradual improvement of the primary balance (excluding grants) to a surplus of 2.5 percent of GDP by 2027, stabilizing the overall public debt at 56 percent of GDP (Table 1).

Despite this substantial adjustment, the PV of the total debt is projected to fall to 40 percent of GDP by the end of 2027, exceeding the 35 percent threshold. Considering the weak debt carrying capacity, it is imperative for the authorities to continue pursuing a prudent borrowing strategy by securing concessional loans or grants beyond the program horizon (DSA).

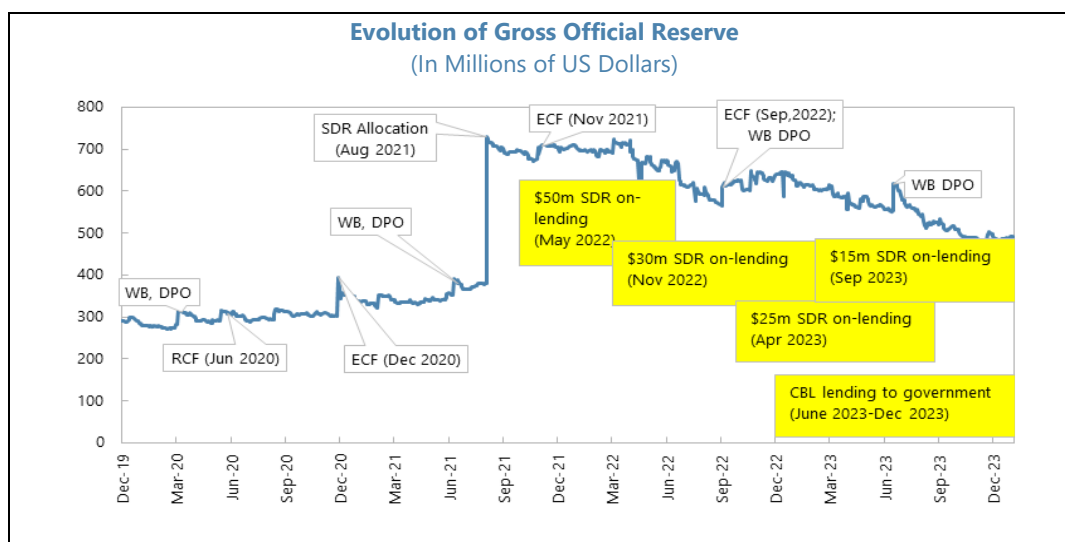


15. The 2024 supplementary budget envisaged a sizable spending rationalization and new tax measures to improve fiscal sustainability. The 2024 supplementary budget has reduced the primary deficit by nearly 5 percent of GDP and identified new tax measures (prior action). While appearing ambitious, this adjustment can be achieved through implementing spending cuts and enforcing existing tax expenditure measures, in addition to undertaking new revenue measures.

- **On the spending side**, the **2024** supplementary budget will ensure a sizable cut of the goods and services outlays, which have been reduced by almost 4 percent of GDP, including the phasing out of one-off election/discretionary spending. The wage bill has been reduced somewhat (0.7 percent of GDP). Despite the severe financing constraints, the on-budget capital spending has been increased by 0.4 percent of GDP from the 2023 level, with the objective to gradually raise the budget allocation for capital spending in the coming years.
- **On the revenue side**, the enforcement of existing tax expenditure measures, adopted in 2023 but not strictly enforced till February 2024, is expected to generate additional revenues of about 0.6 percent of GDP this year. The Ministry of Finance and Development Planning (MFDP) has put these measures into action, albeit with some delays. For instance, an executive order, needed to re-introduce import surcharges on specific goods produced domestically, was adopted in mid-August. With the Legislature approval of the budget, the Goods and Services Tax (GST) rates have been raised from 10 percent to 12 percent on selected goods and services, namely alcohol, gambling/betting, and consultancy services, which will have no impact on the vulnerable. Depending on the timing of the adoption of the new GST rates, the revenue gains in 2024 might be lower than projected.

Box 2. Liberia: Evolution of International Reserves 2019–23

Liberia made some progress in rebuilding Gross International Reserves (GIR) during the first 18 months of the 2019 ECF arrangement. The GIR slightly increased from US\$292 million at end-2019 to US\$366 million in July 2021, supported by the CBL FX gains from its main operations and the buildup of government FX deposits at the CBL. The latter was bolstered by on-lending of the IMF disbursement under the ECF and World Bank budget support.¹ However, the authorities' attempt to increase GIR through CBL purchases of FX were limited by a shortages of Liberian dollar (LRD) banknotes.



The IMF's 2021 general SDR allocation to the membership significantly boosted Liberia's foreign reserves position in August 2021. As a result, the Liberia GIR almost doubled from US\$366 million in July to US\$730 million after receiving the SDR 247.67 million (US\$353 million) allocation to Liberia. Subsequent government drawdowns of FX deposits at the CBL resulted in a significant decline in international reserves. This was partly offset by the disbursement under the third review of the 2019 ECF arrangement, with FX reserve standing at US\$700 million in the last quarter of 2023.

Despite this initial boost, GIR declined substantially in 2022-23, due to the CBL on-lending of SDRs drawdown to the government (about US\$80 million) and revaluation losses from US\$ strengthening against the SDR. The CBL purchases of FX from the GoL (US\$50 million) and the disbursement under the fourth review of the 2019 ECF arrangement moderated this decline.

The CBL's budgetary financing operations in 2023 significantly reversed earlier efforts to build reserves, with FX reserves dropping by US\$158 million to US\$486 million by end-2023 (e.g., only 2-month of import coverage). The current level of FX reserves is assessed to be inadequate to withstand external shocks in resource-dependent dollarized economy, calling for a need to rebuild external buffers.

¹ The combined disbursements under the 2019 ECF arrangement and the 2020 Rapid Credit Facility for COVID-19 impact mitigation were aimed at supporting the GoL with minimal impact on the GIR. The debt relief under the IMF Catastrophe Containment and Relief Trust initiative eased reserve losses.

16. An ambitious revenue mobilization will start from 2025. The authorities proposed a series of new tax policy and revenue administration measures to generate an additional 2.3 percent of GDP in annual revenue by 2027 (Text Table 2). To achieve this goal, the authorities intend to adopt several measures, including: (i) further reducing tax expenditures, (ii) harmonizing excise base

and rates between domestic and imported goods, (iii) increasing GST rates on selected goods and expanding its base, and (iv) accelerating preparation for the VAT implementation. The authorities also committed to mobilizing additional revenues from the natural resource sector by broadening the tax base and reducing the tax expenditures. Their main goal is to transition from the present ad-hoc concession system to a structured framework, within which bilateral concession agreements will be designed to ensure a fair distribution of risks and benefits associated with each mining project, as well as to guarantee the effective enforcement of these agreements. The ECF arrangement, together with the refined CD support, will support the authorities to improve tax compliance and collections. The additional revenues gained through enhanced revenue administration will primarily be allocated to further expanding on-budget capital investment. The related indicative floor will safeguard against any reduction in budget allocations for crucial investment projects (MEFP, Table 1).

Text Table 2. Liberia: 2024-27 Potential Revenue Measures

Revenue Measure	Yield ¹ (In US\$ million)					Yield ¹ (Percent of 2023 GDP)				
	2024	2025	2026	2027	Fully-Year Long Term ²	2024	2025	2026	2027	Fully-Year Long Term ²
Reduction in investment incentives (exemption only for duties and GST on machinery & equipment; no top-ups by the Legislature).	0.0	11.0	11.0	14.0	60.4	0.00	0.22	0.21	0.25	1.38
Reduction in discretionary tax incentives and concessions (e.g., executive order exemptions and incentives through concession agreements).	4.8	33.1	33.1	35.8	106.9	0.10	0.66	0.62	0.63	2.43
Harmonization on excises of domestically produced and imported goods.	2.0	5.3	5.6	8.6	13.2	0.04	0.11	0.11	0.15	0.30
Expanding excise tax base (adding some products to excisable goods list more in line with in line with ECOWAS countries).	0.4	2.2	2.6	3.3	4.4	0.01	0.04	0.05	0.06	0.10
Increasing GST rate on selected goods and base to include a wide range of services. This would also facilitate transition to a VAT.	2.8	7.9	0.0	0.0	15.8	0.06	0.16	0.00	0.00	0.36
VAT implementation.	0.0	0.0	45.6	66.1	114.2	0.00	0.00	0.86	1.17	2.60
Expanding real property tax base and strengthening its administration.	0.0	0.5	1.0	2.3	5.0	0.00	0.01	0.02	0.04	0.11
Total	10.0	60.0	99.0	130.0	319.8	0.21	1.20	1.87	2.30	6.17

Source: IMF staff estimates.
¹ The figures represent improvements vis-à-vis the baseline projections.
² Scenario when these measures are implemented to their full potential.

17. Sustainable fiscal consolidation requires enhanced budget execution controls.

Acknowledging the need for better budget oversight and control, the authorities have adopted a revised PFM regulations to: (i) limit the size of intra-year budget reallocations; (ii) prioritize debt service obligations; (iii) restrict the use of cash payments; (iv) align budget presentations with international standards; and (v) enforce penalties for MACs not adhering to the public procurement laws. Additionally, the Treasury Management Committee has been revitalized to oversee prudent cash planning and update monthly budget allotments for MACs. The authorities are also committed to finalizing the implementation of a functioning Treasury Single Account (TSA) to ensure timely payments in accordance with monthly cash plans.

18. The program aims to enhance the quality of public spending, supporting the authorities' priority to tackle poverty. With the implementation of the planned spending cut in 2024, recurrent spending, including wages, will be maintained at a relatively stable level in real terms over the program period. This will create significant fiscal space for increased investment in critical areas such as health, education, and infrastructure. By applying indicative targets (ITs) on social spending—covering the wage bills of teachers and health sector workers—and on-budget investments, this approach would ensure a more effective allocation of resources to these priority sectors (MEFP, Table 1).

B. Monetary and Financial Policies: Enhancing CBL Independence, Rebuilding Reserves, and Addressing Systemic Risks of the Banking Sector

19. Strengthening the monetary policy framework is crucial for maintaining price stability. The current policy stance remains adequate to contain inflationary pressures. Yet, weak monetary policy transmission mechanism remains the major challenge that the central bank is facing in order to achieve monetary policy objectives. The CBL shared the staff's view about the need for a gradual transition towards a forward-looking and interest rate-based monetary policy framework, with the goal of adopting a full-fledged inflation-targeting framework in the medium to long term. Consistent with the IMF CD recommendations, this transition involves focusing less on monetary aggregate targets, using them instead to monitor inflationary risks, re-establishing an interest rate corridor system to limit volatility of short-term interest rates, and with time focusing on interest rate as the operating target. Improvements in monetary policy operations including active liquidity management, supporting financial deepening, and maintaining a flexible exchange rate are key for this transition. Enhancing central bank independence and its financial position are also essential to more effective monetary policy. The authorities reaffirmed the commitment to revive the interest rate corridor system, supported by standing deposit and credit facilities. CBL bills will continue to serve as the main monetary policy instrument while FX interventions will be limited to preventing excessive exchange rate fluctuations and preserving financial stability.

20. The CBL's monetary financing of the budget in 2023 constituted a significant violation of domestic laws and the conditions under the ECF arrangement. Facing the growing budget financing shortfall, the Government of Liberia (GoL) sought a liquidity support from the CBL, which provided direct budgetary financing through inappropriate overdrafts via suspense accounts and direct loan, totaling US\$83 million. These operations led to a sharp decline in international reserves. Acknowledging the importance of this issue, the General Auditing Commission (GAC) conducted a compliance audit, completed on July 26, and the CBL undertook a forensic audit, conducted by a reputable international audit company, which focused on the suspense accounts.

21. Swift remedial actions have been taken to address the identified governance issues. The GAC's compliance audit revealed that the CBL's lending to the GoL violated the 1986 Constitution of Liberia, the CBL Act, and various relevant CBL Standard Operating Policies and Procedures. In response, the President suspended the Governor, initiating the impeachment process, and one of the Deputy Governors, in charge of Central Bank operations, voluntarily

resigned. To ensure a fully effective operation of the CBL, an Acting Governor and Deputy Governor were appointed in August. The forensic audit also confirmed the use of suspense accounts for budget financing contrary to the CBL Act. Key recommendations from the compliance and forensic audits have already been adopted through amendments to the PFM regulation and the revised Service Level Agreement between the CBL and MFDP. A comprehensive action plan to implement residual recommendations from the compliance and forensic audits and Fund's safeguards assessment update will be adopted by the CBL Board by end-2024 (SB table), helping restore confident, integrity, and accountability of the CBL. Further, the CBL committed to improving its operational efficiency as well as identifying new sources of income to tackle the CBL's persistent operating losses.

22. Adjusting the 2023 CBL loan repayment schedule for the GoL and increasing the local currency component of public wages will help rebuild international reserves. The original terms for the US\$83 million loan from the CBL were notably more relaxed than mandated by the CBL Act.⁴ Following recommendations from the GAC compliance audit for adherence to the CBL Act, and due to limited fiscal capacity, the authorities will accelerate the repayment of the US\$83 million by 2027 (PA Table). The repayment will start from 2025, and this expedited repayment plays a crucial role in rebuilding reserves and restoring the institutional credibility. Moreover, to meet reserve accumulation goals, the CBL also agreed to conduct cautious and strategic purchases of foreign exchange from the GoL. In this context, the government is committed to gradually increase the Liberian dollars (LRD) share of the public wages from its current 20 percent (IT, Table).

23. The health of the banking sector needs to improve. NPLs remain elevated, reflecting poor asset quality. Some banks fail to meet reserve requirements, partially due to lax CBL regulation enforcement. With increased net open FX positions, the banking sector is exposed to foreign exchange risk, compounding its vulnerabilities. Restructuring of a state-owned bank is lagging behind schedule, and the problematic CBL support for two small banks highlights significant weaknesses on those banks that requires close monitoring and swift regulatory action in them (see ¶27-28).

24. While strictly enforcing the reserve requirement regulation, the CBL will prioritize an upgrade of the financial sector's regulatory framework. To this end, the CBL has re-submitted the Bank-Financial Institutions and Bank Financial Holding Companies Act (BFIA) to the Legislature. The approval of BFIA is vital for modernizing the regulatory landscape for banks and financial institutions in Liberia and will facilitate a transition to risk-based supervision. In addition, the immediate focus should be on operationalizing the bank resolution framework to provide adequate tools to deal with insolvent banks, while minimizing the use of public money and potential spillover effects over the financial system. To achieve this, the CBL committed to start preparing the necessary CBL regulations and to assign specialized staff to deal with bank resolution issues.

⁴ The original terms allowed a 5-year grace period and equal monthly payments over the subsequent 15 years at a 4 percent interest rate, in contrast to the CBL Act's requirement for repayment within a year at market interest rates.

Concurrently, the CBL committed to ensuring that no bank should benefit from the ELA facility beyond the regulatory limits and uncollateralized CBL loans to banks will be discontinued (SB Table).

25. The CBL is committed to addressing the high level of NPLs. To achieve this, the CBL will mandate banks to submit a detailed diagnosis of their NPLs, categorizing them by amount, collateral, and borrower. Following these diagnoses, each bank will develop their NPL strategies in line with Liberia’s legal framework and market conditions. The CBL will individually assess each bank-developed plan and will work to identify and address any structural impediments to deal with NPLs. In parallel, the CBL has begun to rigorously monitor banks’ adherence to prudential loan loss provisions and their progress in asset recovery and conducting a thorough assessment of the banking system’s health is under consideration.

26. The program is set to expedite the restructuring of the state-owned bank. An independent audit of this bank with the restatement of its financial accounts has been initiated as a prior action. This action aims to accurately determine the bank’s health and identify necessary corrective measures. Moreover, the bank’s management is committed to redoubling the efforts to reduce its high and persistent share of NPLs, significantly. Implementing the recommendations from an NPL independent external review is a top priority. While the bank is developing a restructuring plan, the CBL will maintain vigilant oversight of the bank’s performance. Furthermore, the CBL plans to prepare a resolution plan, which would be implemented should the bank’s restructuring efforts not yield the desired outcomes (SB Table).

27. To tackle governance concerns related to the CBL’s unconventional support for small banks, an independent review has been recently launched (prior action). In 2022, the CBL extended a guarantee and an indemnity to a new investor of a small bank, covering up to over 90 percent of potential losses from legacy NPLs and potential liabilities from a court case. Furthermore, in May 2024, the CBL provided a grant to assist another small bank to reduce its outstanding debt to the CBL. These extraordinary measures have raised questions about the CBL’s decision-making process and governance. In response, the new CBL management and Board have initiated an independent legal review of these transactions, scheduled to conclude by end-October 2024. The authorities have committed to: (i) implementing recommendations from this review and (ii) taking corrective measures to align the CBL’s lender of last resort roles with international best practices.

28. In conjunction with the independent review, the CBL has initiated corrective actions for to the two small banks involved. The issuance of the non-disbursed guarantee for one of the banks would be suspended until the completion of the review. The CBL is committed to addressing the risks posed by these banks making full use of its available toolkit. Both banks are advised to develop restructuring plans to restore their financial health. Simultaneously, the CBL started preparing tailored resolution plans for each bank to mitigate potential spillover effects on the financial system (SB Table).

C. Governance: Key Reforms to Fight Corruption More Effectively

29. **Strengthening institutions is crucial for growth and attracting new investments.**

Despite the formation of the new Liberia Anti-Corruption Commission (LACC), efforts to combat corruption have seen limited success. With the anticipated adoption of the necessary regulations and operating manuals, the LACC is expected to be fully operational shortly. The upcoming Governance Diagnostic Study (GDS) will help identify key weaknesses and recommend priority actions, thereby guiding the governance reform efforts in subsequent reviews.

30. **The program aims to improve public procurement and contract transparency.**

MACs often fail to submit comprehensive procurement plans to the Public Procurement and Concession Commission (PPCC), and there are delays in the publication of awarded contracts. To tackle these issues, the revised PFM regulation now requires all MACs to submit procurement plans. Failure to submit timely and comprehensive procurement plans will result in reduced budget allocations, and procurement officers who do not comply will face accountability measures.

31. **The authorities are committed to developing a remedial action plan to enhance AML and CFT legislation.**

Despite the new AML/CFT laws, the 2023 mutual evaluation report by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), identified several deficiencies, placing Liberia on the FATF grey list. To rectify these shortcomings, the authorities will formulate a remedial action plan, including stronger prosecution and sanctions for breaches, particularly ensuring compliance for politically exposed persons and meeting beneficial ownership requirements for legal persons (SB Table). Going forward, the Fund will continue to provide policy and technical support in this crucial area, as needed.

DEBT SUSTAINABILITY ANALYSIS

32. **The DSA maintains Liberia's risk of debt distress as moderate for external debt and high for total public debt with weak debt-carrying capacity.**

Following the fiscal deterioration in 2023, it is critical to swiftly revert to prudent fiscal policies to maintain overall debt sustainability and preserve its moderate rating on external debt. Over the medium term, the primary deficit, including the off-budget operations, needs to continue its downward trajectory despite the projected increase in IFIs disbursements—largely IDA credits—for large capital projects. Beyond the medium term, it is anticipated that concessional borrowing will gradually give way to external and domestic non-concessional borrowing to finance public investment and growth. This shift will narrow borrowing space under the moderate risk rating, calling for prudent fiscal policy and debt management. Adhering to the ECF ceiling on the PV of new PPG external borrowing (PC/IT Table) and establishing a credible debt strategy will be instrumental in strengthening debt sustainability and preserving its current moderate risk rating (DSA). The estimated PV ceiling, based on preliminary loan pipeline data, will be reassessed in

future reviews. Please note that the PV limit is set on a contracting basis, while debt is assessed on a disbursement basis.

MODALITIES FOR FUND SUPPORT

33. Facility, access, and phasing. Given its large development needs, the ECF is the most suitable Fund arrangement to address protracted BoP needs facing Liberia. The significant deterioration of external position, including inadequate international reserve coverage, requires significant structural reforms to be implemented over the medium term. Therefore, staff propose an Extended Credit Facility (ECF) arrangement for the amount of SDR155 million (60 percent of quota), disbursed across 8 installments. Initial disbursement will be limited, given the CBL governance and safeguard concerns, with the balance added at the first review, by when the program aims to implement key initial steps to guide CBL governance reforms. This uneven disbursement in 2024 will be followed by six equal installments in 2025-27 (Table 7). The proposed level of access would be sufficient to close the BoP gaps and achieve the program's reserve accumulation targets. Firm commitments are in place to ensure that the program is fully financed for the first 12-month period with good prospects of adequate financing for subsequent years, including the remaining period of the program (Text Table 3 and Table 6).

Text Table 3. Liberia: External Financing Requirements and Sources, 2024–27

(Millions of U.S. dollars)

	2024	2025	2026	2027
Total Financing Requirement	-1,287	-1,419	-1,486	-1,480
o/w: Current account (excluding donor grants)	-1,180	-1,228	-1,267	-1,234
o/w: Repayments to the IMF	-32	-27	-35	-32
o/w: Others	-75	-163	-184	-214
Total Financing Sources	1,196	1,318	1,385	1,376
o/w: Foreign direct investment	477	563	582	583
o/w: Public sector debt financing	130	205	188	216
o/w: Others	589	551	615	577
Total Financing Needs	-91	-100	-100	-104
Total Prospective Financing	91	100	100	104
Budget support	40	49	49	52
IMF Disbursements	51	51	51	52
Memorandum items:				
Burden sharing in percent (<i>IMF Share</i>)	56.1	51.3	51.3	50.3

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

34. Monitoring. The first and second reviews of program performance will be based on end-September and end-December 2024 test dates, while the subsequent reviews will be conducted semi-annually (Table 7). The expedited timing for the first review aims to ensure a strong program implementation from the outset and align the program reviews with the budget cycle. The program assessment will be based on six Performance Criteria (PC) and a number of Indicative Targets (ITs) (PC/IT Table). Macro-critical structural reforms (SB Table) are well suited to address domestic and external vulnerabilities and other challenges.

35. Burden sharing. The proposed ECF disbursement covers about 55 percent of the total financing needs in 2024 (52 percent over the program period), with the remaining share covered by the World Bank (WB) (Table 6). The WB is committed to providing annual budget support of US\$40 million throughout the program period. However, additional budget support is currently under consideration by the EU and African Development Bank (AfDB), the materialization of which will further reduce the share of the Fund's contribution.

36. Capacity to repay. Liberia's capacity to repay the Fund remains adequate, but subject to significant risks given the large Fund's exposure to Liberia (Table 8 and Annex II). Only a strong and substantial and persistent fiscal consolidation will allow maintain the moderate rating for external debt. Outstanding Fund credit will peak at 5.4 percent of GDP (89.4 percent of quota) in 2027. Annual repayments to the Fund will remain high, averaging 37.5 percent of external debt service, 5.6 percent of reserves, and 0.7 percent of GDP over the program horizon, well above the top quartile of past UCT-quality arrangements for LICs (Annex III Figure 1). In the near term, Liberia's repayment capacity could be challenged by slow reform implementation and negative terms of trade shocks. However, risks are mitigated by Liberia's strong track record of repayments to the Fund. Moreover, the adoption of the new PFM regulation and full implementation of Treasury Single Account will reinforce its commitment to prioritizing debt service.

OTHER ISSUES

37. The current Capacity Development (CD) strategy focuses on essential areas, including revenue administration, PFM, monetary policy framework, and bank supervision to ensure the successful implementation of key program measures. The strategy acknowledges significant capacity gaps in all sectors and highlights the crucial role of CD support from development partners. This requires strong collaboration among all CD providers to ensure a clear division of labor and coordinated approach to deliver timely contributions in critical areas.

38. Despite considerable CD efforts, economic statistics remain inadequate. The official national accounts remain unavailable, prompting IMF staff to estimate GDP using limited production and credit data in consultation with CBL staff. Liberia Institute of Statistics (LISGIS) has recently published 2016-2022 GDP data. The program will prioritize government financial statistics and external sector statistics data, including through increased involvement from international CD partners.

39. An updated safeguards assessment that is currently underway has identified ongoing issues in the governance and autonomy of the CBL. In particular, fiscal dominance, weak governance, and ineffective controls resulted in unlawful lending to the GoL in 2023 and controversial transactions to support two small commercial banks. Recommendations to address these issues have been integrated into the program conditionality under the new arrangement. The CBL has pledged to act on these new recommendations as well as to address the remaining recommendations from the 2020 safeguards assessment.

STAFF APPRAISAL

40. The Liberian authorities are committed to revitalizing the economic development and alleviating widespread poverty. Despite the economy's resilience against recent pandemic and other global economic shocks, growth has fallen short of addressing the country's growing economic challenges. Recognizing the critical need for enhanced fiscal sustainability, increased public investment, and strengthened institutions to attain its developmental objectives, the new administration has launched an ambitious reform agenda.

41. The authorities' initial emphasis on restoring fiscal sustainability is well-placed. As a first step to achieve this goal, the 2024 supplementary budget aims to reduce recurrent spending to sustainable levels by cutting unproductive expenses and facilitating a gradual increase in capital expenditure. Going forward, recurrent spending in percent of GDP will decrease throughout the duration of the ECF arrangement, which, together with improved domestic revenue mobilization, will create additional fiscal space for development spending.

42. Fiscal discipline is crucial for ensuring both external and internal stability. In the wake of significant fiscal slippages in 2023, improving budget execution is vital for regaining fiscal credibility. With the economy's high level of dollarization, fiscal consolidation emerges as the primary means to replenish international reserves. In addition to greater public savings, a gradual increase in the local currency share of public wages will also contribute to lowering dollarization and building up international reserves to achieve more adequate levels.

43. High quality revenue mobilization measures are crucial for addressing extensive development needs. The authorities' program aims for an ambitious revenue mobilization, primarily focusing on: (i) reducing generous tax expenditures, (ii) introducing the VAT, (iii) expanding the tax base, and (iv) enhancing tax compliance. Throughout the duration of the ECF arrangement, these initiatives are expected to generate additional revenues equivalent to 4 percent points of GDP. The authorities recognize that domestic resources alone will not be sufficient to implement large infrastructure projects and they plan to continue seeking concessional loans and grants from IFIs and other developing partners. This strategy aims to ensure debt sustainability, facilitate better project selection and vetting, and prevent the crowding out of the private sector investment.

44. The financial sector faces critical challenges that require immediate attention. The BFIA should be approved swiftly to equip the CBL with a contemporary regulatory framework. It is

essential to reduce the high level of NPLs within the banking system and ensure the CBL rigorously enforces the reserve requirements regulation. Moreover, issues in troubled banks should be quickly and effectively resolved. Implementing these vital reforms will strengthen the banking sector, positioning it to significantly bolster Liberia's economic growth.

45. It is imperative that the CBL swiftly address significant governance concerns. This includes promptly implementing the remedial measures from recent compliance and forensic audits as well as Fund's safeguards assessment update. Establishing the CBL's full independence is vital to ensure fiscal discipline, low and stable inflation, stability and development of the financial sector, thereby fostering more robust economic growth. Particularly, moving away from past practices of monetary financing of the budget and highly unconventional support to banks is essential for restoring the CBL's credibility and rebuilding international reserves.

46. Debt management should be significantly strengthened to safeguard debt sustainability. With total public debt having reached around 59 percent in 2023 and debt servicing costs on the rise, it is important to reduce the overall risk of debt distress and preserve the moderate risk rating for external debt distress. There is an urgent need for authorities to bolster their debt management capacity. Timely access to reliable debt data, coupled with its regular publication, is essential for monitoring the progression of debt stock and debt service, as well as for ensuring adequate budgeting for on-time debt payments.

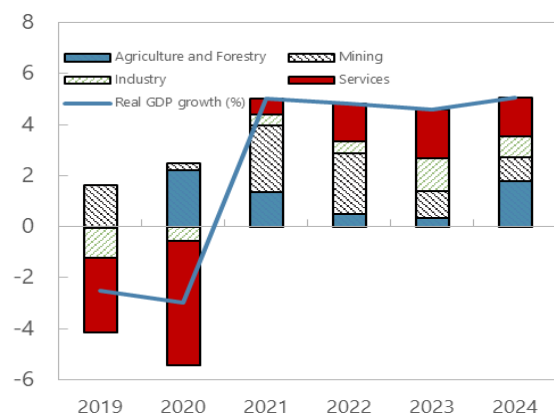
47. Structural reforms under the program are appropriately tailored, focused, and sequenced. The ultimate objective of structural reforms is to foster growth led by the private sector, achieved by enhancing governance and transparency, addressing infrastructure bottlenecks, and financial sector deepening. The forthcoming multi-year national development strategy aims to identify both near-term and medium-term structural reforms across various areas. Implementing these reforms promptly will be crucial in boosting economic growth and human development, addressing the urgent need to combat widespread poverty amid a rapidly expanding population.

48. Staff supports the authorities' request for a 40-month ECF arrangement with access of SDR 155 million (equivalent to 60 percent of quota). The Memorandum of Economic and Financial Policies (MEFP) outlines essential policy reforms that are foundational to the ECF-supported program, aimed at facilitating the achievement of the program's objectives. The financial support under the ECF arrangement is also expected to play a pivotal role in catalyzing additional donors' support. The capacity to repay the Fund is expected to remain adequate, and risks to program implementation are assessed to be manageable, considering the authorities' strong ownership of and commitment to economic reforms, as evidenced by their proactive actions to restore fiscal discipline and the timely execution of priority reforms, including those supported by prior actions.

Figure 1. Liberia: Recent Economic Developments

Growth is expected to slightly improve in 2024 with strong mining activities and recovery in agriculture.

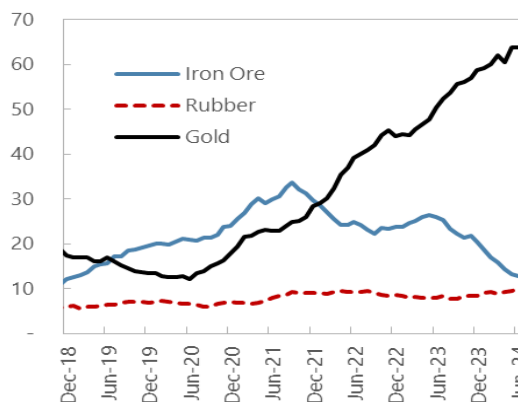
GDP Growth and Contributions by Sector, 2018-24¹
(Percent)



The growth of gold exports continued to accelerate, while rubber and iron ore remained muted.

Nominal Exports, 2018-24

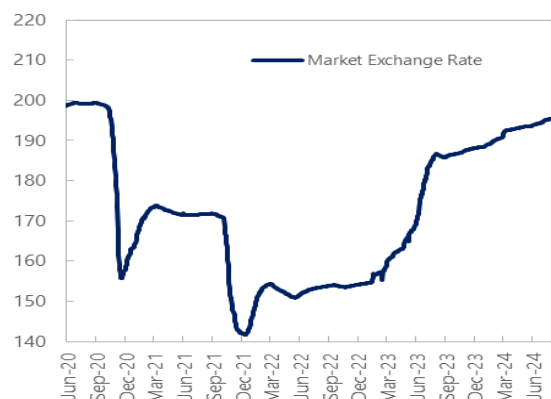
(In millions of US\$, per months, 12-month m.a.)



Exchange rate depreciation stabilized as monetary policy tightening suppresses excess LRD liquidity ...

Daily Exchange Rates, 2020-24

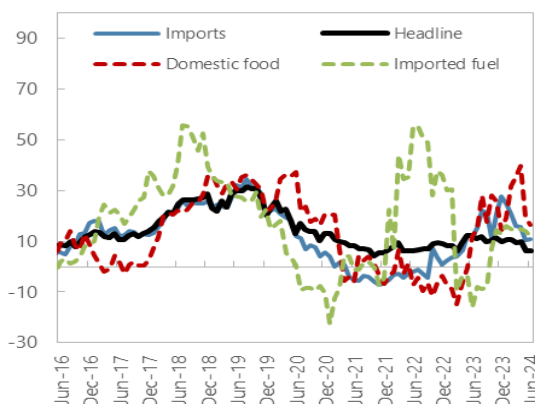
(L\$ per US\$)



... and together with slowdown in import and food prices, resulted to a decline in inflation.

Price Developments, 2016-24²

(12-month percent change)



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

¹ 2024 figures are projections.

² Effective January 2019, Liberian authorities have rebased inflation using the 2016 Household Income and Expenditure Survey which calculates the 2004 base year using a regional average consumption basket.

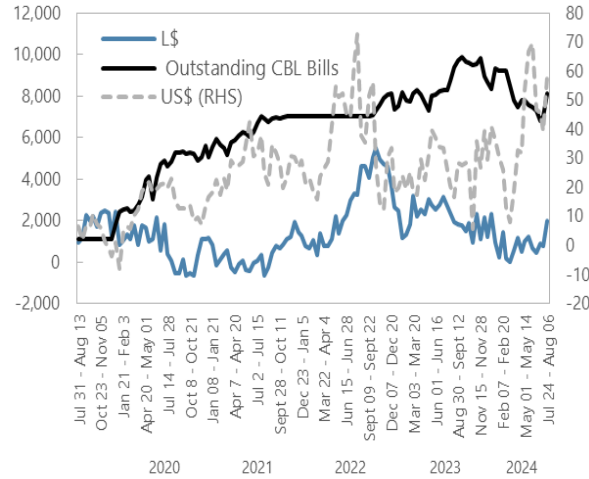
Figure 2. Liberia: Monetary Developments

The CBL increased the supply of its bills to ease the growth of LRD monetary aggregates and excess liquidity.

International reserves declined due to CBL credit to the government, including SDR on-lending, and repayment of Fund obligations.

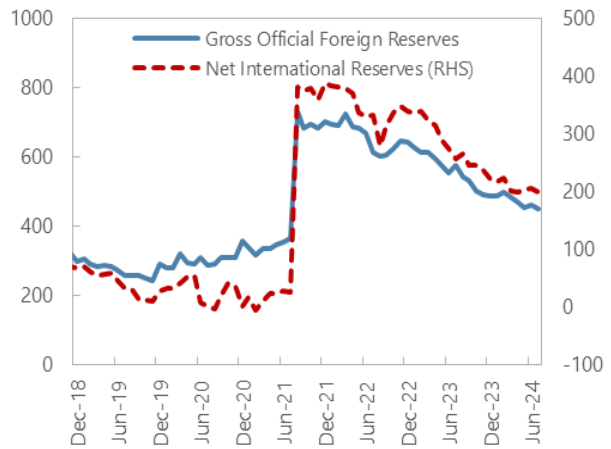
Aggregate Excess Reserves and Outstanding CBL Bills, 2019-24

(In millions of US\$ and \$L, period average)



The growth of monetary aggregates in LRD decelerated.

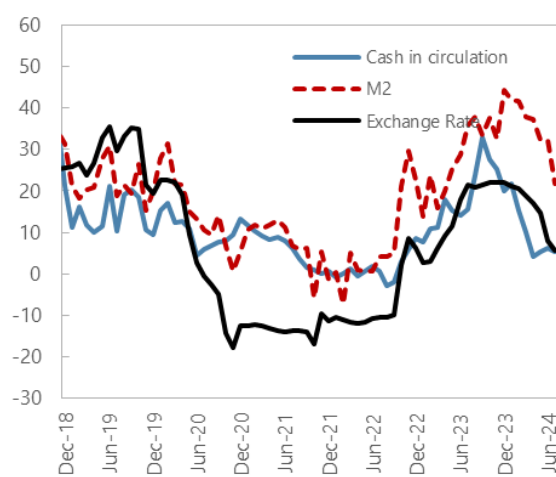
Gross and Net International Reserves, 2018-24
(US\$ millions)



The private sector credit growth picked up and remained largely in US\$¹.

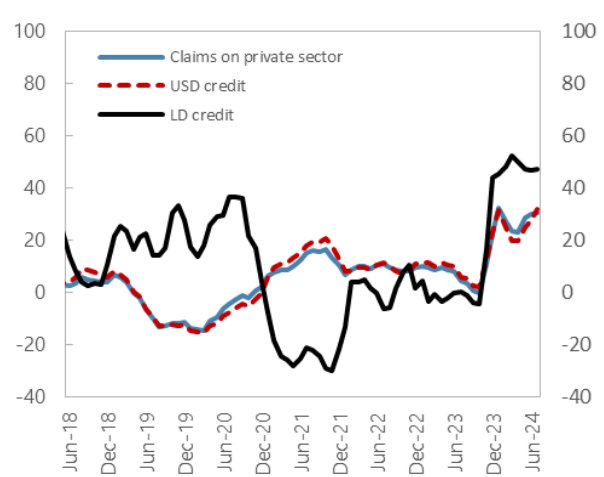
Cash in Circulation Growth, 2018-24

(12-month percent change)



Claims on Private Sector Growth, 2018-24²

(12-month percent change)



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

¹ High credit growth from Dec-2023 largely reflects a correction of the bank's assets classification from "other assets" to "credit to the private sector", which is only made from Dec-2023 with no historical correction.

² 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

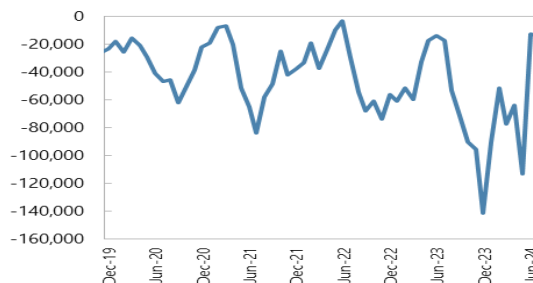
Import growth decelerated sharply while export growth eased somewhat, ...

Imports and Exports, 2019-24
(US\$ 000s, 3-month m.a.)



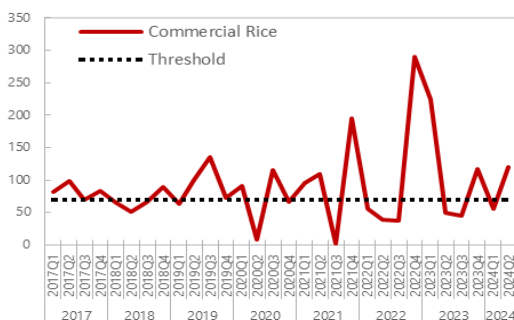
... leading to an improvement of trade balance.

Trade Balance, 2019-24
(US\$ 000s, 3-month m.a.)



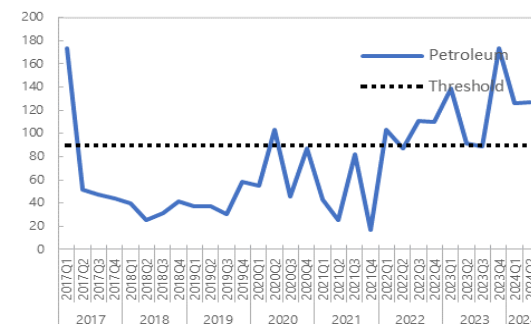
Rice imports are hovering around the minimum threshold.

Quarterly Rice Imports, 2017-24¹
(Volume, metric tons 000s)



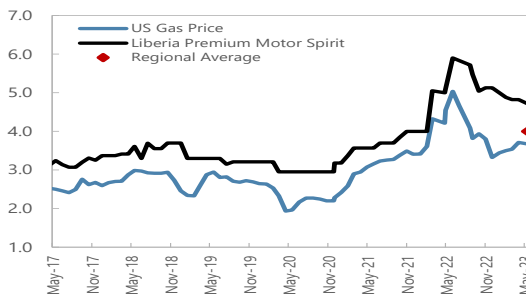
Meanwhile the volume of petroleum imports slowed but remained comfortably above the minimum threshold.

Quarterly Petroleum Imports, 2017-24²
(Volume, million liters)



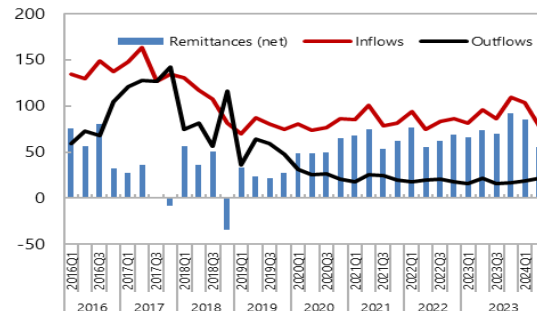
Fuel prices at the pump are following international trends and remain above the regional average.

Imported Fuel Price, 2017-23³
(US\$ per gallon)



Net remittances slowed down as inflows decline while outflows hold steady.

Quarterly Remittances, 2016-24
(US\$ millions)



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).

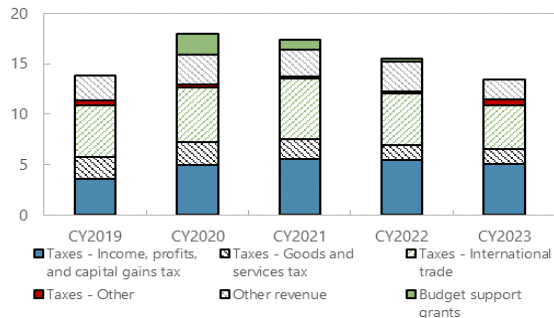
² Quarterly average fuel imports considered adequate by Liberia Petroleum Refining Company (LPRC).

³ Regional average based on prices in ECOWAS commission as of May 18, 2023.

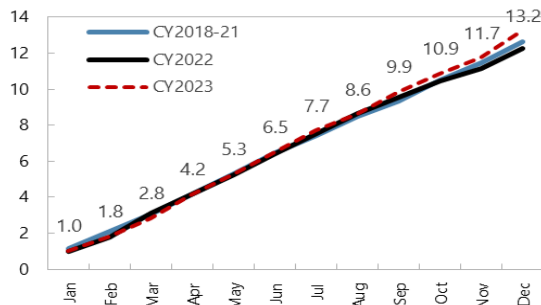
Figure 4. Liberia: Fiscal Performance

Revenue collection in 2023 was behind trends, driven by sharp shortfalls in trade taxes and non-tax revenues.

Revenue Composition, 2019-23
(Percent of GDP)

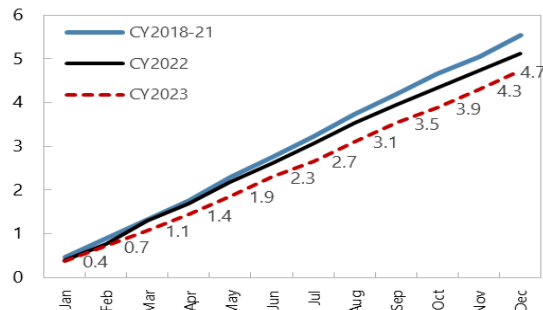


Domestic Revenue, 2018-23
(Cumulative, percent of GDP)



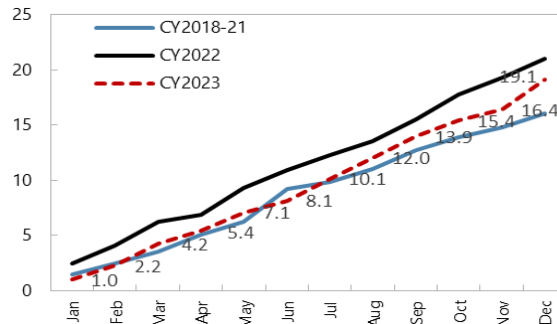
Trade taxes underperformed substantially ...

Trade Taxes, 2019-23
(Cumulative, percent of GDP)



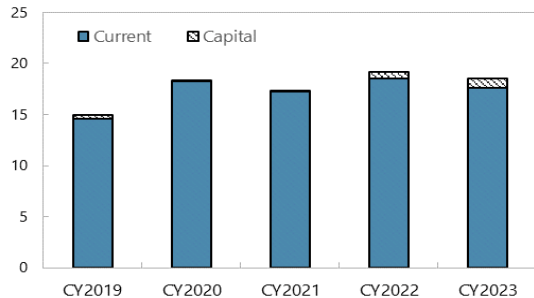
... while total expenditures were much higher than in the recent past, largely driven by higher-than-projected recurrent spending.

Total Expenditure, 2018-23
(Cumulative, percent of GDP)



On-budget capital expenditure has continued to remain low, despite SDR withdrawal ...

On-Budget Expenditure Composition, 2019-23
(Percent of GDP)



... as results the deficit has increased well beyond the programmed targets.

Revenue and Expenditure, 2019-23
(Percent of GDP)

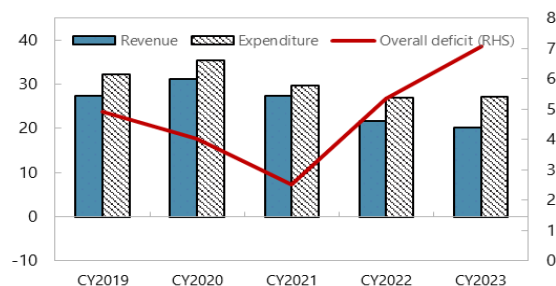


Table 1. Liberia: Selected Economic and Financial Indicators, 2021–29

	2021	2022	2023		2024	2025	2026	2027	2028	2029
	Act.	Act.	4 th Review	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)										
Real sector										
Real GDP	5.0	4.8	4.7	4.6	5.1	5.8	5.9	6.0	6.0	6.0
<i>of which</i> : Mining & panning	17.6	14.0	4.3	5.7	5.1	8.5	8.8	9.5	9.3	8.9
<i>of which</i> : Agriculture & Forestry	3.3	1.3	4.0	0.9	4.8	5.2	5.3	5.3	5.2	5.2
<i>of which</i> : Manufacturing	4.7	2.2	5.5	8.9	4.7	6.9	6.0	6.0	6.0	5.9
<i>of which</i> : Services	1.9	4.8	5.5	7.1	5.3	5.0	5.0	5.0	5.0	5.0
Nominal non-mining per capita GDP (U.S. dollars)	567	626	659	674	702	719	741	769	808	835
Nominal GDP (millions of U.S. dollars)	3,509	3,974	4,236	4,390	4,756	5,051	5,351	5,702	6,140	6,512
Inflation										
Consumer prices (annual average)	7.8	7.6	8.7	10.1	7.7	6.0	5.2	4.9	4.8	4.8
Consumer prices (end of period)	5.5	9.2	6.9	10.0	6.6	5.7	5.0	4.8	4.8	4.8
Population (millions)	5.2	5.3	5.4	5.4	5.6	5.7	5.8	6.0	6.1	6.2
(Percent of GDP)										
Central government operations ¹										
Total revenue and grants	27.3	21.6	24.1	20.1	19.8	20.6	21.5	21.8	21.6	21.9
Total revenue	16.4	15.2	16.1	13.4	14.3	15.0	15.9	16.4	16.5	16.8
Grants ²	10.9	6.4	8.0	6.7	5.5	5.6	5.6	5.4	5.1	5.1
Total expenditure ²	29.8	26.9	27.6	27.2	22.6	24.5	24.1	24.2	24.0	23.3
Current expenditure ³	22.0	20.9	19.2	20.5	16.1	16.9	16.7	16.8	16.4	16.0
Capital expenditure	7.8	6.1	8.4	6.7	6.5	7.6	7.4	7.4	7.6	7.3
Overall balance, including grants ²	-2.5	-5.3	-3.5	-7.1	-2.8	-3.9	-2.6	-2.4	-2.3	-1.4
<i>of which</i> : Budgetary central government	0.1	-3.7	-0.3	-5.1	-0.5	0.0	0.7	0.7	1.5	1.7
Overall balance, excluding grants ²	-13.4	-11.7	-11.5	-13.7	-8.3	-9.5	-8.2	-7.8	-7.5	-6.5
<i>of which</i> : Budgetary central government	-1.0	-3.9	-0.3	-5.1	-0.5	-0.2	0.6	0.6	1.3	1.5
Total public debt (nominal)	53.3	54.3	55.3	58.8	57.2	57.9	57.5	56.3	54.0	51.8
Public external debt ⁴	37.2	35.4	40.3	37.1	37.5	39.6	40.9	41.9	42.4	42.9
Public domestic debt ⁵	16.1	18.9	15.0	21.8	19.7	18.3	16.6	14.4	11.6	8.9
Total public debt (present value)	39.2	39.2	36.7	45.7	43.7	42.7	41.9	40.4	38.2	36.1
(Percent, unless otherwise indicated)										
Monetary sector										
M2/GDP	24.6	25.0	24.9	26.8	27.0	27.2	27.3	27.4	27.4	27.4
Credit to private sector (percent of GDP)	14.8	14.7	15.2	17.9	17.7	17.9	18.3	18.9	19.3	20.1
Credit to private sector (annual percent change)	4.4	12.8	9.7	34.3	6.9	7.5	8.5	9.7	10.2	10.2
(Percent of GDP, unless otherwise indicated)										
External sector										
Current account balance, including grants	-17.8	-19.0	-15.3	-26.4	-22.6	-22.0	-21.3	-19.4	-18.9	-16.5
Current account balance, excluding grants	-22.7	-21.7	-18.2	-29.1	-24.8	-24.3	-23.7	-21.6	-21.0	-18.5
Trade balance	-13.0	-12.6	-10.8	-19.0	-14.1	-12.7	-11.6	-9.1	-8.0	-5.5
Exports	25.1	25.8	23.1	25.3	28.9	30.1	30.5	31.6	32.1	32.7
Imports	-38.1	-38.5	-33.9	-44.3	-43.1	-42.8	-42.1	-40.7	-40.0	-38.2
Grants (donor transfers, net)	5.0	2.7	2.9	2.7	2.2	2.4	2.3	2.2	2.1	2.0
Gross official reserves (millions of U.S. dollars)	701	644	750	486	526	637	767	905	995	1104
In months of next year's imports	3.9	2.9	4.2	2.1	2.1	2.4	2.8	3.2	3.4	3.6
Net international reserves (millions of U.S. dollars)	387	338	384	221	245	330	442	559	681	823

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

Table 2. Liberia: Balance of Payments, 2021–29
(Millions of U.S. dollars, unless otherwise indicated)

	2021	2022	2023		2024	2025	2026	2027	2028	2029
	Act.	Act.	4 th Review	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance	-456	-502	-459	-833	-673	-640	-622	-520	-488	-362
Exports, f.o.b.	881	1,027	977	1,112	1,377	1,520	1,630	1,802	1,968	2,137
<i>of which</i> : rubber	110	101	136	105	161	163	176	195	216	239
<i>of which</i> : Iron ore	347	286	331	243	271	308	361	461	571	680
<i>of which</i> : Gold	340	543	421	681	851	954	994	1,042	1,073	1,105
Imports, f.o.b.	-1,338	-1,529	-1,436	-1,945	-2,049	-2,160	-2,251	-2,321	-2,457	-2,500
Services (net)	-404	-386	-349	-494	-505	-548	-576	-595	-630	-638
Primary income (net)	-214	-250	-210	-273	-323	-361	-394	-446	-495	-540
<i>of which</i> : Investment income (net)	-186	-218	-183	-238	-285	-321	-351	-401	-446	-488
Secondary income	452	382	370	440	425	441	450	454	455	460
<i>of which</i> : Remittances (net)	258	254	225	302	298	299	301	303	300	302
Current account balance, including grants	-623	-756	-648	-1,160	-1,076	-1,109	-1,142	-1,106	-1,158	-1,080
Current account balance, excluding grants	-797	-863	-772	-1,277	-1,180	-1,228	-1,267	-1,234	-1,288	-1,212
Capital and financial account (net)	942	711	680	1,039	1,097	1,195	1,255	1,224	1,280	1,222
Capital account ¹	208	145	186	176	157	166	175	178	181	184
Financial account	734	566	494	863	940	1,029	1,080	1,046	1,099	1,038
Foreign direct investment (net)	255	295	354	428	477	563	582	583	606	471
Portfolio investment (net)	0	0	0	0	0	0	0	0	0	0
Other investment (net)	479	272	140	435	463	467	497	463	493	568
Official financing: medium and long term (net)	419	114	156	257	136	193	174	180	249	218
Private financing (net) ²	60	158	-16	178	327	274	324	283	244	350
Overall balance	318	-44	33	-121	21	86	113	118	122	142
Financing	-318	44	-33	121	-21	-86	-113	-118	-122	-142
Change in gross official reserves (increase -) ³	-342	57	-59	158	-40	-111	-130	-139	-90	-110
Net use of IMF credit and loans	-8	-12	27	-37	19	24	17	21	-32	-33
Exceptional financing (CCRT)	32	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>										
Current account balance (percent of GDP)										
Including grants	-17.8	-19.0	-15.3	-26.4	-22.6	-22.0	-21.3	-19.4	-18.9	-16.5
Excluding grants	-22.7	-21.7	-18.2	-29.1	-24.8	-24.3	-23.7	-21.6	-21.0	-18.5
Trade balance (percent of GDP)	-13.0	-12.6	-10.8	-19.0	-14.1	-12.7	-11.6	-9.1	-8.0	-5.5
Donor transfers (net, percent of GDP)	5.0	2.7	2.9	2.7	2.2	2.4	2.3	2.2	2.1	2.0
Foreign direct investment (net, percent of GDP)	7.3	7.4	8.4	9.8	10.0	11.1	10.9	10.2	9.9	7.2
Public sector external debt (MT and LT percent of GDP)	37.2	35.4	40.3	37.1	37.5	39.6	40.9	40.9	42.4	42.9
Gross official reserves	701	644	750	486	526	637	767	905	995	1,104
<i>of which</i> : Undrawn SDR allocation of August 2021	347	249	253	211	208	209	210	210	211	211
Gross official reserves (months of next year's imports)	3.9	2.9	4.2	2.1	2.1	2.4	2.8	3.2	3.4	3.6

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), 2021–29¹**
(Millions of U.S. dollars)

	2021	2022	2023		2024	2025	2026	2027	2028	2029
	Act.	Act.	4 th Review	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	957	858	1,020	882	941	1,041	1,150	1,242	1,328	1,426
<i>of which</i> : Revenue, excl. grants	576	606	682	589	680	755	849	934	1,014	1,092
Taxes	483	488	546	504	566	603	654	716	780	842
Income, profits, and capital gains taxes	196	218	222	223	286	309	332	364	394	422
Goods and services tax	68	59	77	66	67	72	86	101	112	122
International trade tax	209	203	237	188	203	212	224	239	258	277
Other taxes ²	9	8	11	27	9	11	11	12	16	22
Other revenue	93	118	136	85	104	92	97	87	94	101
Unidentified revenue measures	0	0	0	0	10	60	99	130	140	149
Grants ³	382	252	338	293	261	285	300	308	314	334
Expense	772	829	811	899	764	853	894	955	1,007	1,039
Compensation of employees	298	298	296	311	299	317	336	358	386	409
Use of goods and services	360	384	355	434	272	329	337	360	388	393
Interest	31	37	44	43	58	72	75	81	68	65
Subsidies and grants ⁴	78	92	99	93	115	110	116	124	132	137
Social benefits	6	18	17	18	21	25	30	32	34	36
Net operating balance	185	29	209	-17	177	188	255	287	320	387
Gross investment in nonfinancial assets	273	241	356	293	309	382	395	422	464	476
Overall balance = Net lending/borrowing	-88	-212	-147	-310	-132	-195	-139	-136	-144	-90
<i>excl. grants</i>	-469	-464	-485	-603	-393	-480	-440	-444	-458	-424
Primary balance	-57	-174	-104	-267	-73	-123	-64	-54	-76	-25
<i>excl. grants</i>	-439	-427	-441	-560	-335	-408	-364	-363	-389	-359
Financing	-69	-220	-147	-310	-132	-195	-139	-136	-144	-90
Transactions in financial assets	-29	20	0	-40	0	0	0	0	0	0
Deposits	-29	20	0	-40	0	0	0	0	0	0
Loans (policy lending)	0	0	0	0	0	0	0	0	0	0
Transaction in liabilities	40	240	147	270	132	195	139	136	144	90
Loans	93	175	166	252	98	162	131	137	189	130
External (net)	111	91	148	129	112	183	164	170	223	192
Disbursements ³	122	114	173	153	147	235	218	246	279	241
Amortization (-)	-11	-23	-25	-24	-35	-53	-54	-76	-55	-49
Domestic (net)	-18	84	18	123	-15	-20	-33	-33	-34	-62
<i>of which</i> : CBL	-5	80	22	123	0	-20	-33	-33	-34	-62
Disbursements	0	80	22	123	0	0	0	0	0	0
Amortization (-)	-5	0	0	0	0	-20	-33	-33	-34	-62
Debt securities	-24	66	0	19	39	32	9	-1	-45	-40
Bank ⁴	-12	80	-4	8	25	21	9	8	-26	-38
Nonbank	-12	-14	4	11	14	11	0	-10	-19	-2
Accounts payable	-29	-1	-18	0	-5	0	0	0	0	0
Adjustments and discrepancies	-19	9	0	0	0	0	0	0	0	0
<i>Memorandum items</i> :										
Total public debt	1,870	2,158	2,343	2,582	2,718	2,925	3,079	3,213	3,316	3,374
External	1,305	1,406	1,709	1,627	1,782	1,999	2,189	2,390	2,606	2,792
Domestic ⁵	565	752	634	955	937	926	890	823	710	582
Nominal GDP	3,509	3,974	4,236	4,390	4,756	5,051	5,351	5,702	6,140	6,512

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), 2021–29¹**
(Percent of GDP, unless otherwise indicated)

	2021	2022	2023		2024	2025	2026	2027	2028	2029
	Act.	Act.	4 th Review	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	27.3	21.6	24.1	20.1	19.8	20.6	21.5	21.8	21.6	21.9
<i>of which</i> : Revenue, excl. grants	16.4	15.2	16.1	13.4	14.3	15.0	15.9	16.4	16.5	16.8
Taxes	13.8	12.3	12.9	11.5	11.9	11.9	12.2	12.6	12.7	12.9
Income, profits, and capital gains taxes	5.6	5.5	5.2	5.1	6.0	6.1	6.2	6.4	6.4	6.5
Goods and services tax	1.9	1.5	1.8	1.5	1.4	1.4	1.6	1.8	1.8	1.9
International trade tax	6.0	5.1	5.6	4.3	4.3	4.2	4.2	4.2	4.2	4.2
Other taxes ²	0.3	0.2	0.2	0.6	0.2	0.2	0.2	0.2	0.3	0.3
Other revenue	2.6	3.0	3.2	1.9	2.2	1.8	1.8	1.5	1.5	1.5
Unidentified revenue measures	0.0	0.0	0.0	0.0	0.2	1.2	1.8	2.3	2.3	2.3
Grants ³	10.9	6.4	8.0	6.7	5.5	5.6	5.6	5.4	5.1	5.1
Expense	22.0	20.9	19.2	20.5	16.1	16.9	16.7	16.8	16.4	16.0
Compensation of employees	8.5	7.5	7.0	7.1	6.3	6.3	6.3	6.3	6.3	6.3
Use of goods and services	10.2	9.7	8.4	9.9	5.7	6.5	6.3	6.3	6.3	6.0
Interest	0.9	0.9	1.0	1.0	1.2	1.4	1.4	1.4	1.1	1.0
Subsidies and grants ⁴	2.2	2.3	2.3	2.1	2.4	2.2	2.2	2.2	2.1	2.1
Social benefits	0.2	0.5	0.4	0.4	0.4	0.5	0.6	0.6	0.6	0.6
Net operating balance	5.3	0.7	4.9	-0.4	3.7	3.7	4.8	5.0	5.2	5.9
Gross investment in nonfinancial assets	7.8	6.1	8.4	6.7	6.5	7.6	7.4	7.4	7.6	7.3
Overall balance = Net lending/borrowing	-2.5	-5.3	-3.5	-7.1	-2.8	-3.9	-2.6	-2.4	-2.3	-1.4
excl. grants	-13.4	-11.7	-11.5	-13.7	-8.3	-9.5	-8.2	-7.8	-7.5	-6.5
Primary balance	-1.6	-4.4	-2.4	-6.1	-1.5	-2.4	-1.2	-1.0	-1.2	-0.4
excl. grants	-12.5	-10.7	-10.4	-12.8	-7.0	-8.1	-6.8	-6.4	-6.3	-5.5
Financing	-2.0	-5.5	-3.5	-7.1	-2.8	-3.9	-2.6	-2.4	-2.3	-1.4
Transactions in financial assets	-0.8	0.5	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Deposits	-0.8	0.5	0.0	-0.9	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
Transaction in liabilities	1.1	6.0	3.5	6.2	2.8	3.9	2.6	2.4	2.3	1.4
Loans	2.7	4.4	3.9	5.7	2.1	3.2	2.4	2.4	3.1	2.0
External (net)	3.2	2.3	3.5	2.9	2.4	3.6	3.1	3.0	3.6	2.9
Disbursements ³	3.5	2.9	4.1	3.5	3.1	4.7	4.1	4.3	4.5	3.7
Amortization (-)	-0.3	-0.6	-0.6	-0.5	-0.7	-1.0	-1.0	-1.3	-0.9	-0.8
Domestic (net)	-0.5	2.1	0.4	2.8	-0.3	-0.4	-0.6	-0.6	-0.6	-1.0
<i>of which</i> : CBL	-0.1	2.0	0.5	2.8	0.0	-0.4	-0.6	-0.6	-0.6	-1.0
Disbursements	0.0	2.0	0.5	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Amortization (-)	-0.1	0.0	0.0	0.0	0.0	-0.4	-0.6	-0.6	-0.6	-1.0
Debt securities	-0.7	1.7	0.0	0.4	0.8	0.6	0.2	0.0	-0.7	-0.6
Bank ⁴	-0.3	2.0	-0.1	0.2	0.5	0.4	0.2	0.1	-0.4	-0.6
Nonbank	-0.3	-0.4	0.1	0.3	0.3	0.2	0.0	-0.2	-0.3	0.0
Accounts payable	-0.8	0.0	-0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Adjustments and discrepancies	-0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items</i> :										
Total public debt	53.3	54.3	55.3	58.8	57.2	57.9	57.5	56.3	54.0	51.8
External	37.2	35.4	40.3	37.1	37.5	39.6	40.9	41.9	42.4	42.9
Domestic ⁵	16.1	18.9	15.0	21.8	19.7	18.3	16.6	14.4	11.6	8.9
Nominal GDP	3,509	3,974	4,236	4,390	4,756	5,051	5,351	5,702	6,140	6,512

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, 2021–29¹
(Millions of U.S. dollars)

	2021	2022	2023		2024	2025	2026	2027	2028	2029
	Act.	Act.	4 th Review	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	611	617	682	589	680	764	858	946	1,026	1,104
<i>of which</i> : Revenue, excl. grants	576	606	682	589	680	755	849	934	1,014	1,092
Taxes	483	488	546	504	566	603	654	716	780	842
Income, profits, and capital gains taxes	196	218	222	223	286	309	332	364	394	422
Goods and services tax	68	59	77	66	67	72	86	101	112	122
International trade tax	209	203	237	188	203	212	224	239	258	277
Other taxes ²	9	8	11	27	9	11	11	12	16	22
Other revenue	93	118	136	85	104	92	97	87	94	101
Unidentified revenue measures	0	0	0	0	10	60	99	130	140	149
Grants	35	11	0	0	0	9	9	12	12	12
Expense	604	737	657	774	643	679	721	769	807	846
Compensation of employees	298	298	296	311	299	317	336	358	386	409
Use of goods and services	191	291	202	310	150	154	163	174	188	199
Interest	31	37	44	43	58	72	75	81	68	65
Subsidies and grants ³	78	92	99	93	115	110	116	124	132	137
Social benefits	6	18	17	18	21	25	30	32	34	36
Net operating balance	7	-120	25	-185	37	86	137	176	218	258
Gross investment in nonfinancial assets	5	25	39	40	62	85	99	106	124	146
Overall balance = Net lending/borrowing excl. grants	2	-145	-14	-225	-25	0	38	71	95	112
Primary balance excl. grants	-33	-156	-14	-225	-25	-8	29	59	83	100
Primary balance	32	-108	30	-182	33	72	114	152	163	176
excl. grants	-3	-119	30	-182	33	64	105	140	151	165
Financing	8	-154	-14	-225	-25	0	38	70	95	112
Transactions in financial assets	-29	20	0	-40	0	0	0	0	0	0
Deposits	-29	20	0	-40	0	0	0	0	0	0
Loans (policy lending)	0	0	0	0	0	0	0	0	0	0
Transaction in liabilities	-37	174	14	185	25	0	-38	-70	-95	-112
Loans	4	109	33	167	-9	-33	-47	-69	-49	-72
External (net)	22	25	15	44	5	-13	-14	-36	-15	-9
Disbursements	33	48	40	68	40	40	40	40	40	40
Amortization (-)	-11	-23	-25	-24	-35	-53	-54	-76	-55	-49
Domestic (net)	-18	84	18	123	-15	-20	-33	-33	-34	-62
<i>of which</i> : CBL	-5	80	22	123	0	-20	-33	-33	-34	-62
Disbursements	0	80	22	123	0	0	0	0	0	0
Amortization (-)	-5	0	0	0	0	-20	-33	-33	-34	-62
Debt securities	-12	66	0	19	39	32	9	-1	-45	-40
Bank	-12	80	-4	8	25	21	9	8	-26	-38
Nonbank	0	-14	4	11	14	11	0	-10	-19	-2
Accounts payable	-29	-1	-18	0	-5	0	0	0	0	0
Adjustments and discrepancies	-7	8	0	0	0	0	0	0	0	0
<i>Memorandum items</i> :										
Total public debt	1,870	2,158	2,343	2,582	2,718	2,925	3,079	3,213	3,316	3,374
External	1,305	1,406	1,709	1,627	1,782	1,999	2,189	2,390	2,606	2,792
Domestic ⁴	565	752	634	955	937	926	890	823	710	582
Nominal GDP	3,509	3,974	4,236	4,390	4,756	5,051	5,351	5,702	6,140	6,512

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, 2021–29¹
(Percent of GDP, unless otherwise indicated)

	2021	2022	2023		2024	2025	2026	2027	2028	2029
	Act.	Act.	4 th Review	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	17.4	15.5	16.1	13.4	14.3	15.1	16.0	16.6	16.7	16.9
<i>of which</i> : Revenue, excl. grants	16.4	15.2	16.1	13.4	14.3	15.0	15.9	16.4	16.5	16.8
Taxes	13.8	12.3	12.9	11.5	11.9	11.9	12.2	12.6	12.7	12.9
Income, profits, and capital gains taxes	5.6	5.5	5.2	5.1	6.0	6.1	6.2	6.4	6.4	6.5
Goods and services tax	1.9	1.5	1.8	1.5	1.4	1.4	1.6	1.8	1.8	1.9
International trade tax	6.0	5.1	5.6	4.3	4.3	4.2	4.2	4.2	4.2	4.2
Other taxes ²	0.3	0.2	0.2	0.6	0.2	0.2	0.2	0.2	0.3	0.3
Other revenue	2.6	3.0	3.2	1.9	2.2	1.8	1.8	1.5	1.5	1.5
Unidentified revenue measures	0.0	0.0	0.0	0.0	0.2	1.2	1.8	2.3	2.3	2.3
Grants	1.0	0.3	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.2
Expense	17.2	18.5	15.5	17.6	13.5	13.4	13.5	13.5	13.2	13.0
Compensation of employees	8.5	7.5	7.0	7.1	6.3	6.3	6.3	6.3	6.3	6.3
Use of goods and services	5.4	7.3	4.8	7.1	3.2	3.1	3.1	3.1	3.1	3.1
Interest	0.9	0.9	1.0	1.0	1.2	1.4	1.4	1.4	1.1	1.0
Subsidies and grants ³	2.2	2.3	2.3	2.1	2.4	2.2	2.2	2.2	2.1	2.1
Social benefits	0.2	0.5	0.4	0.4	0.4	0.5	0.6	0.6	0.6	0.6
Net operating balance	0.2	-3.0	0.6	-4.2	0.8	1.7	2.6	3.1	3.6	4.0
Gross investment in nonfinancial assets	0.2	0.6	0.9	0.9	1.3	1.7	1.9	1.9	2.0	2.2
Overall balance = Net lending/borrowing	0.1	-3.7	-0.3	-5.1	-0.5	0.0	0.7	1.2	1.5	1.7
excl. grants	-1.0	-3.9	-0.3	-5.1	-0.5	-0.2	0.6	1.0	1.3	1.5
Primary balance	0.9	-2.7	0.7	-4.2	0.7	1.4	2.1	2.7	2.7	2.7
excl. grants	-0.1	-3.0	0.7	-4.2	0.7	1.3	2.0	2.5	2.5	2.5
Financing	0.2	-3.9	-0.3	-5.1	-0.5	0.0	0.7	1.2	1.5	1.7
Transactions in financial assets	-0.8	0.5	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Deposits	-0.8	0.5	0.0	-0.9	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
Transaction in liabilities	-1.1	4.4	0.3	4.2	0.5	0.0	-0.7	-1.2	-1.5	-1.7
Loans	0.1	2.7	0.8	3.8	-0.2	-0.7	-0.9	-1.2	-0.8	-1.1
External (net)	0.6	0.6	0.4	1.0	0.1	-0.3	-0.3	-0.6	-0.2	-0.1
Disbursements	0.9	1.2	0.9	1.5	0.8	0.8	0.7	0.7	0.7	0.6
Amortization (-)	-0.3	-0.6	-0.6	-0.5	-0.7	-1.0	-1.0	-1.3	-0.9	-0.8
Domestic (net)	-0.5	2.1	0.4	2.8	-0.3	-0.4	-0.6	-0.6	-0.6	-1.0
<i>of which</i> : CBL	-0.1	2.0	0.5	2.8	0.0	-0.4	-0.6	-0.6	-0.6	-1.0
Disbursements	0.0	2.0	0.5	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Amortization (-)	-0.1	0.0	0.0	0.0	0.0	-0.4	-0.6	-0.6	-0.6	-1.0
Debt securities	-0.3	1.7	0.0	0.4	0.8	0.6	0.2	0.0	-0.7	-0.6
Bank	-0.3	2.0	-0.1	0.2	0.5	0.4	0.2	0.1	-0.4	-0.6
Nonbank	0.0	-0.4	0.1	0.3	0.3	0.2	0.0	-0.2	-0.3	0.0
Accounts payable	-0.8	0.0	-0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Adjustments and discrepancies	-0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items</i> :										
Total public debt	53.3	54.3	55.3	58.8	57.2	57.9	57.5	56.3	54.0	51.8
External	37.2	35.4	40.3	37.1	37.5	39.6	40.9	41.9	42.4	42.9
Domestic ⁴	16.1	18.9	15.0	21.8	19.7	18.3	16.6	14.4	11.6	8.9
Nominal GDP	3,509	3,974	4,236	4,390	4,756	5,051	5,351	5,702	6,140	6,512

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, 2021–29
(Millions of U.S. dollars; unless otherwise indicated)

	2021	2022	2023		2024	2025	2026	2027	2028	2029
	Act.	Act.	4 th Review	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Central Bank Survey)										
Net foreign assets	-7	-19	-12	-104	-63	27	149	273	397	543
Foreign assets	803	749	857	634	683	802	942	1,089	1,183	1,296
<i>of which:</i> Gross reserves	796	730	850	626	676	794	935	1,081	1,175	1,288
Foreign liabilities	809	768	862	737	747	775	793	816	785	753
<i>of which:</i> Short-term foreign liabilities	278	263	331	228	244	270	287	309	277	245
Net domestic assets	314	339	346	462	438	377	292	208	123	18
Net domestic credit	511	565	634	693	689	667	633	598	562	498
Net claims on government	512	565	600	689	689	669	636	603	569	507
Claims on private sector	8	9	8	7	7	7	8	8	8	9
Claims on commercial banks (net)	-10	-9	25	-3	-7	-9	-11	-13	-15	-17
Capital account	-147	-156	-108	-162	-163	-163	-163	-163	-163	-163
Other items (net)	-50	-70	-180	-69	-88	-128	-178	-227	-277	-318
Monetary base (M0)	307	320	334	358	375	404	441	481	520	561
Monetary base (LD component, billions of LD)	31	36	44	41	46	52	59	66	74	83
(Depository Corporation Survey)										
Net foreign assets	149	107	165	79	119	209	331	455	580	725
Net domestic assets	714	888	888	1,099	1,166	1,162	1,128	1,106	1,102	1,059
Net claims on government	562	667	619	808	833	835	811	786	725	625
Claims on private sector	519	586	642	786	841	904	981	1,076	1,186	1,306
Claims on nonbank financial institutions	8	11	25	14	15	16	17	18	18	19
Capital account	-366	-359	-272	-369	-369	-369	-369	-369	-369	-369
Other items (Net)	-8	-16	-127	-141	-155	-223	-311	-404	-458	-522
Broad money (M2)	863	995	1,053	1,178	1,284	1,372	1,459	1,561	1,682	1,784
LD component	275	309	372	290	316	350	386	428	472	513
LD currency in circulation	153	153	145	156	159	166	176	188	202	217
LD denominated deposits	122	157	227	134	157	184	211	241	270	295
U.S. dollar component (deposits only)	588	685	681	888	969	1,021	1,072	1,133	1,210	1,271
<i>Memorandum items :</i>										
Gross official reserves	701	644	750	486	526	637	767	905	995	1,104
Net international reserves	387	338	384	221	245	330	442	559	681	823
Broad money (annual change) in U.S. dollars	11.3	15.3	8.0	18.4	9.0	6.8	6.4	7.0	7.7	6.1
Broad money (annual change) in LD	-1.5	22.6	21.2	44.4	19.9	14.2	11.6	11.1	11.2	9.4
LD contribution to broad money growth (in LD)	-1.3	6.3	9.5	4.5	4.8	4.6	4.0	4.0	3.7	3.4
U.S. dollar contribution to broad money growth (in LD)	-0.2	16.3	11.8	39.9	15.0	9.6	7.6	7.1	7.5	6.0
Monetary base (LD component, annual change)	3.6	16.4	18.0	14.9	13.5	13.2	12.5	12.2	12.0	11.5
Net credit to government (annual change)	-12.4	18.6	1.8	21.3	3.1	0.1	-2.9	-3.1	-7.7	-13.9
Credit to private sector (annual change) ¹	4.4	12.8	9.7	34.3	6.9	7.5	8.5	9.7	10.2	10.2
Velocity (GDP-to-M2)	4.1	4.0	4.0	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Money multiplier (M2/M0)	2.8	3.1	3.1	3.3	3.4	3.4	3.3	3.2	3.2	3.2

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

¹ High credit growth in 2023 is due to correction of the bank's assets classification from "other assets" to "credit to the private sector", which is only made for 2023 with no historical correction.

Table 5. Liberia: Financial Soundness Indicators, 2019–24
(Percent)

	Dec-19	Dec-20	Dec-21	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Core FSIs for Deposit Takers										
Regulatory Capital to Risk-Weighted Assets ¹	30.9	36.6	31.0	27.0	27.7	21.9	23.9	26.7	35.8	30.3
Regulatory Tier 1 Capital to Risk-Weighted Assets ¹	29.4	33.1	28.0	27.1	27.8	22.0	24.0	26.8	36.0	30.4
Tier 1 capital to assets	15.7	17.2	16.5	13.9	13.8	12.4	12.5	12.6	13.4	11.4
Non-performing Loans Net of Provisions to Capital	12.3	5.6	12.1	7.8	7.0	5.5	6.6	10.3	7.4	8.8
Non-performing Loans to Total Gross Loans	17.5	21.6	22.8	17.7	16.2	16.2	16.0	17.9	18.7	17.7
Provisions to nonperforming loans	74.9	88.2	75.1	83.5	82.5	87.7	85.1	77.2	83.3	82.2
<i>Sectoral Distribution of Loans to Total Loans</i>										
Residents	100.0	100.0	99.5	100.0	99.9	100.0	100.0	100.0	100.0	99.8
Deposit-takers	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	4.6	3.7	0.3	1.2	1.3	1.3	1.3	1.2	1.4	1.3
General government	2.0	2.0	4.3	2.7	2.8	2.9	2.7	2.7	12.3	3.3
Nonfinancial corporations	77.6	78.4	73.0	73.3	70.7	71.2	72.8	74.8	65.1	72.5
Other domestic sectors	15.8	15.9	21.8	22.8	25.0	24.5	23.1	21.3	21.2	22.7
Nonresidents	0.0	0.0	0.5	0.0	0.1	0.0	0.0	0.0	0.0	0.2
Return on Assets	2.6	1.1	3.1	2.1	2.0	2.3	2.7	2.7	3.5	3.5
Return on Equity	14.7	6.6	17.8	12.9	14.1	16.7	19.5	19.4	26.0	25.1
Interest Margin to Gross Income	52.8	52.9	53.8	47.5	48.6	48.8	49.7	52.0	53.1	53.7
Non-interest Expenses to Gross Income	74.2	77.2	62.3	61.5	66.5	63.6	60.6	59.7	55.2	55.6
Liquid Assets to Total Assets (Liquid Asset Ratio)	27.3	28.7	32.7	36.0	37.9	33.4	38.1	30.8	41.2	39.7
Liquid Assets to Short Term Liabilities	42.3	41.7	49.9	48.7	52.3	46.2	50.8	53.8	53.4	49.7
Net Open Position in Foreign Exchange to Capital	45.1	34.9	47.6	45.8	43.4	51.0	50.1	51.5	50.0	59.9

Sources: Liberian authorities; and IMF staff estimates.

¹The 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, 2021–29
(Millions of U.S. dollars)

	Actuals			Projections					
	2021	2022	2023	2024	2025	2026	2027	2028	2029
Total Financing Requirement	-1,185	-861	-1,180	-1,287	-1,419	-1,486	-1,480	-1,465	-1,404
Current account (excluding donor grants)	-797	-863	-1,277	-1,180	-1,228	-1,267	-1,234	-1,288	-1,212
Public debt amortization	-13	-20	-24	-35	-53	-54	-76	-55	-49
Repayments to the IMF	-32	-35	-37	-32	-27	-35	-32	-32	-33
Changes in official reserves	-342	57	158	-40	-111	-130	-139	-90	-110
Total Financing Sources	1,113	780	1,115	1,196	1,318	1,385	1,376	1,414	1,352
Capital transfer	208	145	176	157	166	175	178	181	184
Foreign direct investment	255	295	428	477	563	582	583	606	471
Project grants	139	97	117	105	111	117	116	118	120
Public sector debt financing	419	86	216	130	205	188	216	264	228
Private financing (net)	60	158	178	327	274	324	283	244	350
Exceptional financing (CCRT debt relief)	32	0	0	0	0	0	0	0	0
Total Financing Needs	-72	-81	-65	-91	-100	-100	-104	-52	-52
Total Prospective Financing	72	81	65	91	100	100	104	52	52
Budget support	48	58	65	40	49	49	52	52	52
o/w WB	46	55	65	40	40	40	40	40	40
o/w Other development partners ¹	3	3	0	0	9	9	12	12	12
IMF Disbursements	24	23	0	51	51	51	52	0	0
o/w new ECF program	0	0	0	51	51	51	52	0	0
Residual Financing Gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Gross official reserves	701	644	486	526	637	767	905	995	1,104
Months of imports	3.9	2.9	2.1	2.1	2.4	2.8	3.2	3.4	3.6

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

¹ Includes African Development Bank (AfDB) budget support

Table 7. Liberia: Proposed Schedule of Disbursements Under ECF Arrangement, 2024–27
(Millions of SDR)

Availability Date ¹	Amount	% of Quota	Conditions Necessary for Disbursement ²
September 25, 2024	4.30	1.66	Executive Board Approval of forty-month ECF arrangement.
December 1, 2024	34.30	13.27	Observance of performance criteria for September 30, 2024, and completion of first review.
June 1, 2025	19.30	7.47	Observance of performance criteria for December 31, 2024, and completion of second review.
December 1, 2025	19.30	7.47	Observance of performance criteria for June 30, 2025, and completion of third review.
June 1, 2026	19.30	7.47	Observance of performance criteria for December 31, 2025, and completion of fourth review.
December 1, 2026	19.30	7.47	Observance of performance criteria for June 30, 2026, and completion of fifth review.
June 1, 2027	19.60	7.59	Observance of performance criteria for December 31, 2026, and completion of sixth review.
November 26, 2027	19.60	7.59	Observance of performance criteria for June 30, 2027, 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, 2024–34
(As of July 2024; SDR millions, unless otherwise indicated)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
	Projections										
Fund obligations based on existing credit											
(in millions of SDRs)											
Repayment of principal	24.4	20.2	25.9	23.8	24.2	24.2	17.2	6.8	3.4	0.0	0.0
Charges and interest	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Fund obligations based on existing and prospective credit											
(in millions of SDRs)											
Repayment of principal	24.4	20.2	25.9	23.8	24.2	24.2	26.9	24.2	28.5	31.0	31.0
Charges and interest	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Total obligations based on existing and prospective credit											
In millions of SDRs											
In millions of US\$	29.6	25.6	31.3	29.2	29.6	29.6	32.3	29.6	33.9	36.4	36.4
In percent of exports of goods and services	39.2	34.1	41.8	39.0	39.7	39.8	43.3	39.7	45.5	48.9	45.6
In percent of debt service 1/	2.4	1.9	2.2	1.8	1.7	1.6	1.6	1.4	1.6	1.6	1.4
In percent of GDP	47.0	34.1	37.5	31.3	36.6	33.9	33.9	30.6	30.0	28.0	24.2
In percent of Gross International Reserves	0.8	0.7	0.8	0.7	0.6	0.6	0.6	0.5	0.6	0.6	0.5
In percent of quota	7.5	5.4	5.4	4.3	4.0	3.6	3.6	3.1	3.4	3.4	3.0
In percent of quota											
11.5	9.9	12.1	11.3	11.5	11.5	12.5	11.4	13.1	14.1	14.1	
Outstanding Fund credit											
In millions of SDRs											
184.4	202.8	215.5	230.9	206.7	182.4	155.6	131.4	102.9	71.9	40.9	
In millions of US\$											
244.3	269.9	287.4	308.8	277.0	245.0	208.9	176.5	138.1	96.5	51.2	
In percent of exports of goods and services											
14.8	14.9	14.9	14.6	12.1	9.9	7.8	6.3	4.8	3.2	1.6	
In percent of external public debt service 1/											
292.3	270.2	258.0	247.5	255.2	209.0	163.3	136.1	91.1	55.3	27.2	
In percent of GDP											
5.1	5.3	5.4	5.4	4.5	3.8	3.0	2.3	1.7	1.1	0.6	
In percent of Gross International Reserves											
46.4	42.4	37.5	34.1	27.8	22.2	17.5	14.0	10.2	6.7	3.3	
In percent of quota											
71.4	78.5	83.4	89.4	80.0	70.6	60.2	50.8	39.8	27.8	15.8	
Net use of Fund credit (in millions of SDRs)											
Disbursements											
14.2	18.4	12.7	15.4	-24.2	-24.2	-26.9	-24.2	-28.5	-31.0	-31.0	
Repayments											
38.6	38.6	38.6	39.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
24.4	20.2	25.9	23.8	24.2	24.2	26.9	24.2	28.5	31.0	31.0	
Memorandum items:											
Exports of goods and services (in millions of US\$)											
1,653	1,811	1,933	2,116	2,296	2,475	2,679	2,781	2,905	3,022	3,145	
Debt service (in millions of US\$)											
83.6	99.9	111.4	124.8	108.5	117.2	127.9	129.6	151.7	174.6	188.5	
Nominal GDP (in millions of US\$)											
4,756	5,051	5,351	5,702	6,140	6,512	7,006	7,514	8,043	8,584	9,161	
Gross International Reserves (in millions of US\$)											
526	637	767	905	995	1,104	1,191	1,261	1,349	1,437	1,531	
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.

**Table 9. Liberia: Summary Table of Projected External Borrowing Program
January 1, 2024 to December 31, 2024**

PPG external debt	Volume of new debt in 2024		PV of new debt in 2024 (program purposes)		PV of new debt in 2024 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	252.0	100	96.3	100	96.3	100
Concessional debt, of which	252.0	100	96.3	100	96.3	100
Multilateral debt	252.0	100	96.3	100	96.3	100
Bilateral debt	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	0.0	0	0.0	0	0.0	0
Semi-concessional	0.0	0	0.0	0	0.0	0
Commercial terms	0.0	0	0.0	0	0.0	0
By Creditor Type	252.0	100	96.3	100	96.3	100
Multilateral	252.0	100	96.3	100	96.3	100
Bilateral - Paris Club	0.0	0	0.0	0	0.0	0
Bilateral - Non-Paris Club	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	252.0	100	96.3	100	96.3	100
Infrastructure	145.0	58	55.9	58	55.9	58
Social Spending	34.0	13	12.8	13	12.8	13
Budget Financing	73.0	29	27.5	29	27.5	29
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items						
<i>Indicative projections</i>						
Year 2	0.0		0.0		0.0	
Year 3	0.0		0.0		0.0	

Source: Country authorities and IMF staff calculations.

Annex I. Ex-Post Peer Reviewed Assessment (PRA)

Since a Staff-Monitored Program (SMP) in 2006 after the end of civil wars during 1989-2003, Liberia has benefited from two SMPs and three arrangements under the Extended Credit Facility (ECF). Despite relatively strong initial performance, the last program expired in December 2023 with only 4 out of 8 scheduled reviews completed, due to significant fiscal policy slippage and resistance to structural reforms. Though not successful, the program engagement during 2019-23 helped to maintain macroeconomic stability. Main lessons from the previous program engagement include: (i) program conditionality should be clearly defined, taking into account the political economy, reform ownership, and implementation capacity; (ii) implementing reform measures carries the risk of reversals, underscoring the need for strong ownership and robust contingency planning; and; (iii) while capacity development support has proven invaluable, hands-on training is often essential in certain domains. In addition, while Liberia has been removed of the FCS list, recommendations of the new Fund FCS strategy should be applied to Liberia, given its low-capacity level.

Overview

1. Over the past 17 years, the Fund has been a steadfast partner in Liberia’s economic development, providing financial support for 15 of those years. Liberia began its long-term program engagement (LTPE) with the Fund in 2006, following the conclusion of two civil wars spanning from 1989 to 2003. After completing two SMPs during 2006-07, Liberia entered into a PRGF/EFF arrangement in 2008, which also facilitated debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. Subsequently, program engagement persisted through two ECF arrangements in 2012 and 2019. During these Fund-supported programs, the Fund also provided emergency financing support under the Rapid Credit Facility (RCF) twice to help address urgent Balance of Payments (BoP) needs arising from the 2015 Ebola crisis and the 2020 COVID-19 pandemic. During this period, Liberia accessed concessional loans totaling SDR 513 million from the Fund, received HIPC debt relief amounting to SDR 549 million, and obtained grants from Catastrophe Containment and Relief Trust (CCRT) totaling SDR 71 million (Text Table 1).

2. The fragility of Liberia’s economy and its weak fundamentals necessitated a sustained financial commitment and policy support from the Fund. Emerging from fourteen years of civil wars, Liberia faced profound challenges, with its income depleted, social and public infrastructure destroyed, and human capital severely impacted. Rebuilding a stable and sustainable macroeconomic foundation, while fostering an environment conducive to robust poverty reduction and growth, is anticipated to be a protracted journey requiring persistent capacity development, prudent macroeconomic policies, and continued international financial assistance. In addition to this protracted BoP problem Liberia has faced, periodic shocks such as adverse fluctuations in commodity prices and public health crises like Ebola and COVID-19 exacerbated the macroeconomic imbalances and stability. In response to these challenges, Fund’s long-term engagement has primarily been through the ECF, which serves as the Fund’s principal mode of financial engagement for the PRGT-eligible countries facing large development needs.

Text Table 1. Liberia: Concessional Lending and Debt Relief for Liberia Since 2008				
Arrangements:				
Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Dec 11, 2019	Dec 10, 2023	155.00	85.00
ECF	Nov 19, 2012	Nov 17, 2017	111.66	111.66
ECF ¹	Mar 14, 2008	May 17, 2012	247.90	247.90
Emergency Financing:				
Type	Date of Approval	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
Debt Relieves:				
Type of Debt Relief		Period	Amount Disbursed/Delivered (SDR million)	
HIPC		Jun 2010 ²	548.53 ³	
CCRT (Ebola)		Feb 23, 2015	25.84	
CCRT (COVID-19) ⁴		Apr 2020-Dec 2021	45.34	
¹ Formerly Poverty Reduction and Growth Facility. The fourth review (June 2010) and later were completed under ECF arrangement. ² The decision point of debt relief was Mar 2008, and the completion point was June 2010. ³ The amount was delivery of debt relief at the completion point. ⁴ CCRT grants during COVID-19 were provided thorough 5 tranches of total of SDR 45.34 million.				
Source: Finance Department, IMF.				

3. This PRA reviews the most recent ECF arrangements with Liberia during 2019-23.¹

Following the conclusion of the ECF arrangement in 2017, the newly elected previous government did not immediately seek another ECF arrangement in 2018. However, the absence of a Fund arrangement led to a retention of donor support, and the fiscal gap was closed with CBL financing, consequently causing the inflation rate to soar above 30 percent. At the same time, governance deteriorated significantly in the absence of a program engagement with the Fund. Eventually, in 2019, the previous government chose to request Fund's support for the economic program. The 4-year ECF arrangement was approved in December 2019 with access of 60 percent of quota (SDR 155 million). However, the ECF-supported program encountered setbacks following the fourth review in August 2022. Despite a promising start, the fiscal performance of the program began to waver, characterized by a significant

¹ The previous PRA was conducted as part of 2018 Article IV consultation with Liberia. It covers the ECF arrangements during 2008-12 and 2012-2017.

revenue shortfall and a hike in goods and service expenditure. Moreover, challenges arose in the execution of structural reforms. Despite several attempts to reinvigorate the program's momentum since mid-2022, these efforts proved unsuccessful, resulting in the expiration of the ECF arrangement with only four out of eight scheduled reviews completed, and approximately half of the approved access disbursed.

Program Objectives

4. The ECF program approved for 2019-23 was primarily focused on restoring macroeconomic stability and strengthening resilience within Liberia. Its objectives encompassed a range of initiatives aimed at curbing inflation, bolstering revenue mobilization to support essential infrastructure and social spending, ensuring financial stability, and strengthening the country's capacity to withstand external economic shocks. Central to the program's goals was ensuring sustainable public finances aligned with macroeconomic stability and conducive to economic development. To this end, the program delineated specific fiscal structural reforms, many of which were embedded in structural benchmarks (SBs) and supported by technical assistance from the Fund. In addition, the authorities committed to enhancing Liberia's business environment as a crucial component of fostering sustainable growth. The program also prioritized efforts to reinforce financial stability and foster financial deepening. Addressing weakness in governance and institutions of the public sector was a pivotal pillar of the program's overarching objectives.

Program Design

5. The selection of the lending instrument was best suited to Liberia's circumstances and Fund lending portfolio. Given the protracted BoP need, the imperative for substantial structural reforms, the high risk of debt distress, and the limited implementation capacity, the four-year ECF was the most suitable instrument to support Liberia's economic program. The four-year program was intended to cover the remaining term of the previous government and to provide the time to implement the ambitious structural reform agenda.

6. The program design was focused on achieving its primary objective: urgent macroeconomic stabilization followed by structural reforms to address development needs. To curb inflation and stabilize the exchange rate, it prioritized ending monetary financing of the budget and implementing fiscal consolidation, which would also improve public debt path. Given Liberia's unique dual currency system, large import needs, and narrow export base, the program envisaged only modest accumulation of international reserves and a gradual reduction of the current account deficit. Economic growth was expected to gradually recover from the 2019 recession.

7. The access of 60 percent of quota phased in nine broadly even disbursements were deemed appropriate ex-ante. It was projected to fill the BoP financing gap and help the CBL rebuild buffers, with the expectation that gross official foreign exchange reserves would recover to 2.6 months of imports by 2023. While the access level fell below the ECF access norm, the cumulative credit under the Fund-supported program was expected to reach 8.3 percent of GDP, which was among the highest

compared to other PRGT-eligible countries. In addition, the Fund-supported program was expected to catalyze more donor support.

8. Conditionality was largely in line with program objectives. Quantitative performance criteria (QPCs) and indicative targets (ITs) were aimed at bolstering international reserves while containing inflationary pressures, facilitating prudent macroeconomic policies, and limiting fiscal deficit and debt accumulation as listed in Table 1. SBs focused on priority reform areas, integrated with the capacity development (CD) initiatives.

- While the CD support proved instrumental to overcome the implementation capacity constraints, the effectiveness of certain ITs was hampered by the authorities' weak implementation capacity. For instance, discrepancies in the budget classification of capital spending and financial statements in Liberia compared to international standards, along with frequent ad-hoc reclassifications rendered timely monitoring of ITs on certain expenditure items practically infeasible.
- The SBs detailed in Table 2 aimed to steer authorities in executing structural reforms and capacity developing programs. However, the reform agenda could have benefited from clearer prioritization and focus, considering the authorities' capacity constraints. Moreover, setting SBs on reform preparations, such as finalizing a reform strategy or action plan, should have been avoided. Instead, SBs could have been structured to guide the authorities through intermediate steps toward achieving the desired outcomes.

9. Key assumptions and risk assessments were generally adequate. However,

- The emergence of the COVID-19 pandemic and Russia's war in Ukraine significantly altered the macroeconomic landscape post-program approval. The pandemic weakened the macroeconomy and strained the balance sheets of financial institutions. Government lockdowns further delayed structural reforms. Additionally, Russia's war led to increased prices for imported goods due to higher fuel and insurance costs.
- Some of the SBs may have been overly ambitious. The deadlines might have been too tight for fiscal reform measures, considering the previous administration's lack of experience. Involvement of stakeholders beyond the Ministry of Finance and Development Planning (MFDP) and the CBL to meet these SBs also complicated the situation. This resulted in delays in the program reviews.
- While contingency planning was updated at each review, it proved insufficient in mitigating the scale of policy slippages observed before the election. In retrospect, the risk assessments may not have fully considered the authorities' implementation capacity, the political and social environment during the election period, and weak institutions. The substantial fiscal and monetary policy slippages before the election campaign were largely attributable to weak Public Financial Management (PFM) practices and broader governance challenges.

Program Performance

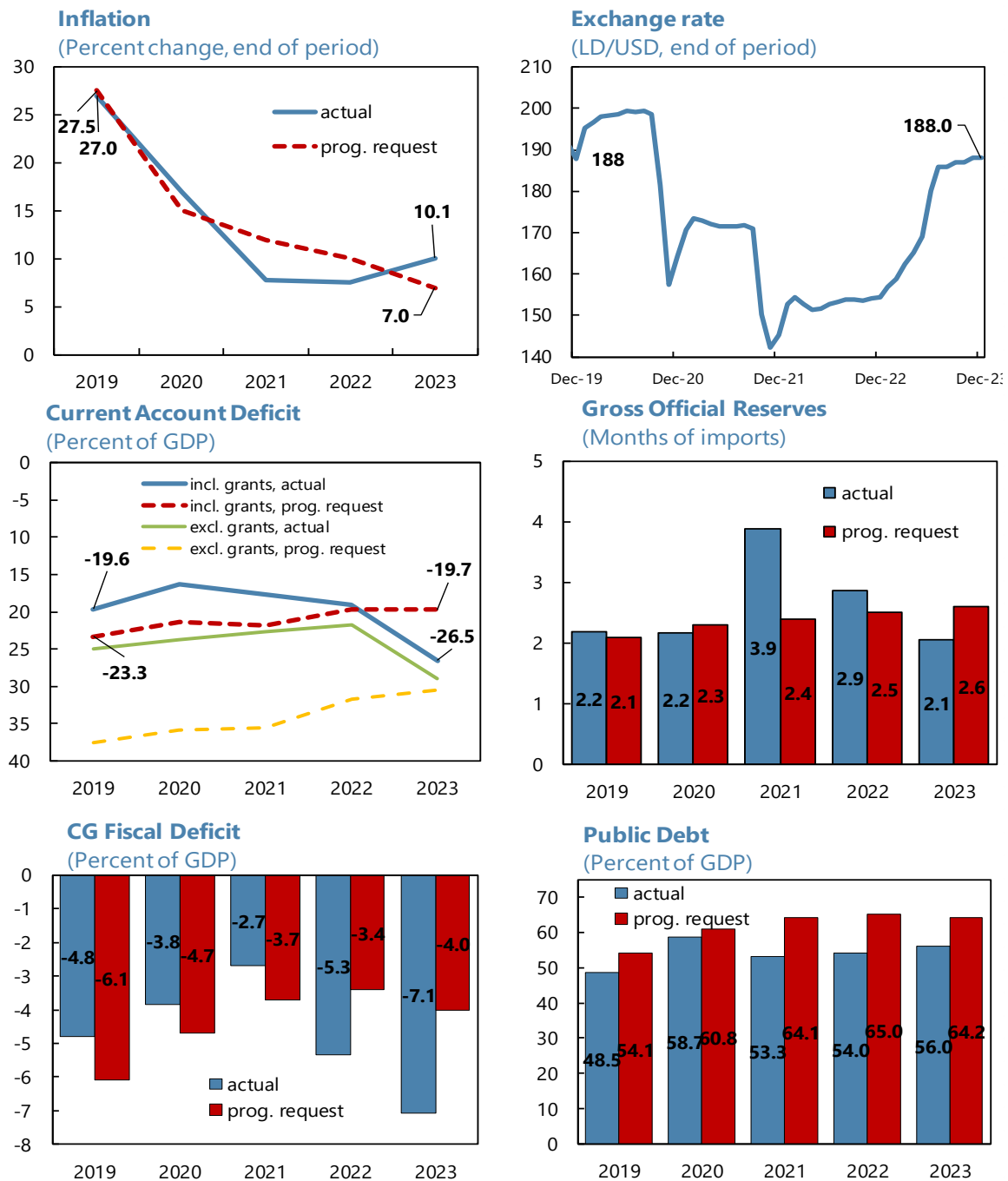
10. Good progress was made during program negotiations and in the early stages of program implementation despite challenging environment caused by pandemic. During this period, the authorities successfully restored macroeconomic stability, reduced the public sector wage bill, regularized domestic arrears into consolidated public debts, passed modern Central Bank Act, and reduced the CBL operational loss to eliminate international reserve drain. The authorities recapitalized troubled state-controlled Liberia Bank for Development and Investment (LBDI) though the full reform has not yet been completed. Subsequent successes included the passage and implementation of the new Liberia Anti-Corruption Commission (LACC) Act, the smooth rollout of a currency changeover, and reduction in commercial loss of Liberia Electricity Corporation (LEC) in collaboration with the World Bank. Significant progress was achieved through intensive technical assistance provided by various CD departments.

11. The program successfully restored macroeconomic order within a short timeframe. By 2021, inflation had fallen to 5.5 percent from some 30 percent in 2019, the fiscal deficit had been reduced to 2.5 percent of GDP, the exchange rate had appreciated to around 145 LRD/US\$ from a peak of almost 200 LRD/US\$ in 2019 as depicted in Text Figure 1. Additionally, Liberia's international reserve coverage nearly doubled to 3.9 months of imports largely thanks to the SDR allocation of SDR 247.7 million (US\$345 million) in August 2021. Despite the challenges posed by the COVID-19 pandemic, including temporary shutdowns and a contraction in economic activity by 3 percent in 2020, Liberia experienced a rebound with a 5 percent growth rate in 2021.

12. The Fund's support played a crucial role in rebuilding external buffers during the pandemic. The first review of the ECF program faced delays due to the practical difficulties of conducting comprehensive policy discussions during the pandemic. To help address the urgent BoP needs arising from the pandemic, the RCF, amounting 14 percent of quota (SDR 36.2 million; US\$49.1 million; 1.7 percent of GDP), was provided while a timely completion of reviews was not feasible. The grant from the CCRT, amounting SDR 45.3 million, was also provided in five tranches over a 2-year period, alleviating Liberia's debt service burden. Furthermore, Liberia benefitted from a general SDR allocation of SDR 247.7 million (US\$345 million) in August 2021. These supports improved Liberia's external position drastically in 2021 only to deteriorate later.

13. The period preceding the general and presidential elections in 2023 posed significant challenges for policy implementation. Starting from mid-2022, policy slippages and backtracking undid much of the progress of the early years of the program. Developments in both fiscal and external domains were most concerning. Elevated spending pressures associated with the election, coupled with a decline in revenue collection, led to the accumulation of external debt service arrears. To overcome budget financing constraints, the government exerted pressure on the CBL to extend US dollar credit, resulting in a significant depletion of international reserves. Moreover, progress on structural reforms slowed further during this period.

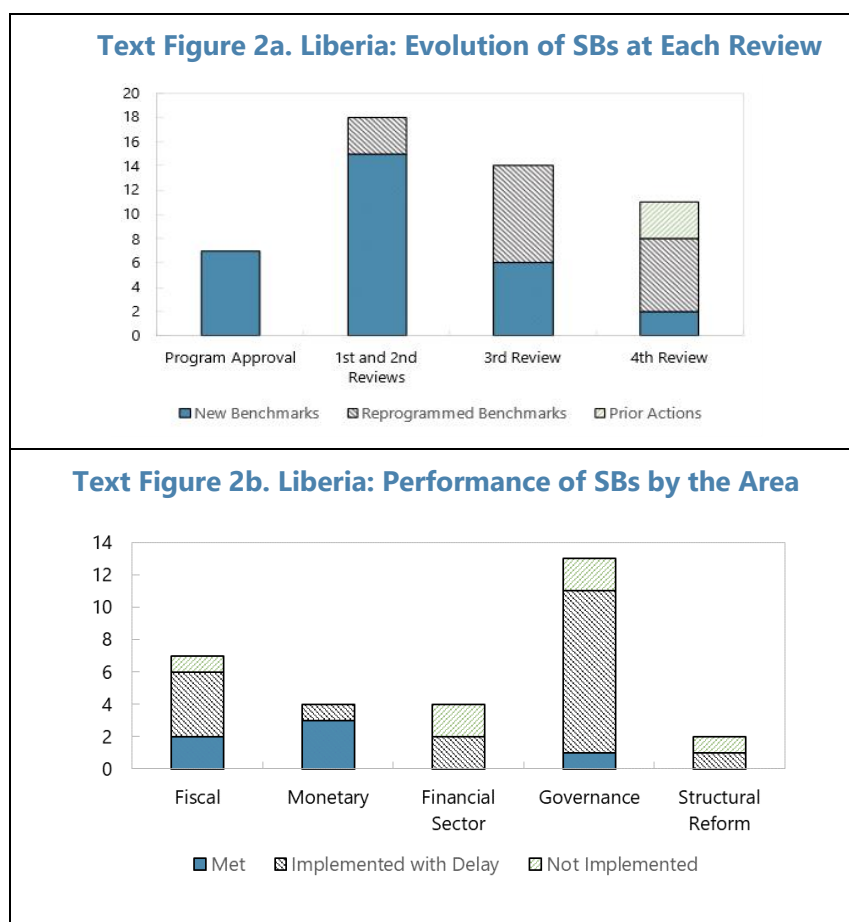
Text Figure 1. Liberia: Macroeconomic Performance, 2019-23



Sources: Liberian authorities; and Fund staff calculations and estimates.

14. Program performance deteriorated as a result. Only two-fifths of the set performance criteria were met, despite frequent easing of numerical targets during reviews (Table 1). On several occasions, the authorities requested waivers for nonobservance of performance criteria alongside proposed corrective actions, yet implementation of these actions was lacking. Achieving the

programmed accumulation of net international reserves, as well as adhering to the targets for the primary fiscal balance proved particularly challenging amid challenging external environment. Ceilings on external debt contracting, prohibition of new direct CBL credit to the government, limits on CBL operational expenditure, and timely payment of external debt obligations were generally adhered to initially. However, during 2023, the situation deteriorated quickly: during this time, the government accrued external debt service arrears, and the CBL resumed budget financing in violation of the CBL Act and the program conditionality. The primary fiscal balance excluding grants, which had already disappointed in the second half of 2022, deteriorated sharply to 4.3 percent of GDP. Various factors contributed to the depletion of international reserves, including the utilization of SDRs for budget financing, foreign exchange sales by the CBL to the government, and US dollar-denominated loans from the CBL to the government.



15. The implementation of the structural reform agenda remains incomplete. Out of the 30 SBs established throughout the program's duration, only 7 were met, 17 were implemented with delay, and 6 are still pending. The frequent need to reset the structural conditionality due to these delays increasingly limited the establishment of new benchmarks as the program progressed. Notably, only one new benchmark was set in the fourth review. Lagging implementation also led to an unusually high number of prior actions: 10 at program approval, 4 in the first and second reviews, 2 in the third review, 4 in the fourth review (Text Figure 2a). Four prior actions were

considered for the failed fifth and sixth reviews. Many governance-related SBs were reprogrammed multiple times and implemented with long delay (Text Figure 2b). A few SBs have eventually been set as prior actions, and two SBs were not implemented by the end of program. In contrast, SBs in fiscal and monetary policy areas were implemented, sometimes with shorter delay, if the Legislature's approval is not required for the completion of the SBs.

16. The overall macroeconomic performance during the entire program period was mixed amid very challenging external environment. While Liberia made progress in maintaining price and exchange rate stability and sustained decent economic growth after the pandemic, fiscal and external developments veered off course (as depicted in Text Figure 1). In particular,

- Inflation declined from 20.3 percent at end-2019 to 10.7 percent by end-2023. While this level is above the originally programmed 7 percent, it was deemed acceptable, given the unanticipated headwinds from global price developments.
- The nominal exchange rate at the end of the program reached the exact same level of 188 LRD/US\$ as at the program inception. The intermittent nominal appreciation was fully reversed, and real appreciation partially reversed. This was a welcome development as the Fund's external sector assessment diagnoses a substantial exchange rate overvaluation.
- Economic growth was somewhat weaker than initially programmed, averaging 2.8 percent per year over the four years compared to the envisaged 3.5 percent. The recession in 2020, triggered by the pandemic, was not fully offset by stronger growth in subsequent years.
- Public finances deteriorated, with the fiscal deficit (including project aid) widening to 6.2 percent of GDP in 2023, exceeding the programmed 4 percent. However, the public debt ratio was lower than projected at 57.4 percent of GDP, partly due to the large upward revision of nominal GDP resulting from real exchange-rate appreciation offsetting the effect from fiscal slippages. Challenges in servicing debt in 2023 underscored Liberia's difficulties to deal with its current debt.
- External sector developments deviated significantly from projections, with the current account deficit widening to 26.5 percent of GDP in 2023, driven by sustained import surge during the pandemic. Despite the strong boost from various Fund's support since 2019, international reserves, at 2.1 months of imports, fell short of the program target. Consequently, Liberia's gross international reserves stood at only US\$ 486 million at end-2023 despite cumulative support from the Fund of about US\$ 543 million since 2019.

17. In summary, while the ECF arrangement helped stabilize key macroeconomic indicators, such as growth, inflation, and exchange rate, it fell short of strengthening resiliency due to challenges in fiscal and external sectors.

Lessons Learnt

18. The ECF engagement leading up to the election played a vital role as a policy anchor in a fragile socio-economic and political landscape despite extremely difficult global environment. During this challenging period, the ECF arrangement (i) partially restored macroeconomic stability; (ii) mitigated policy slippages to some degree; (iii) facilitated the implementation of key structural reforms, such as amendments to the Central Bank Act and the Liberia Anti-Corruption Commission Act; (iv) catalyzed additional financial and other support from the development partners to bolster reform efforts; and (v) provided vital technical assistance for capacity building (Table 2).

19. However, the ECF program faced challenges, partly due to the absence of strong financial incentives for the government during the election period. With the program fundamentally off-track, the government redirected a significant portion of the financial support provided by the Fund to the CBL since 2019, instead of continuing prudent fiscal policies and structural reforms. It would have been prudent to develop robust engagement strategies well in advance to navigate potential challenges during the election period. Determination of the program duration, the timing of reviews, specific program targets in consideration of the domestic political calendar could have helped mitigate the risk of policy slippages during this period.

20. The assessment revealed three main lessons. The following lessons are in line with the Fund's FCS strategy, which should be extended to all countries exhibiting FCS-like characteristics, regardless of formal inclusion on the Fund's FCS list. This underscores the benefit of tailoring the program design and conditionality to Liberia's unique circumstances, particularly its political landscape and capacity constraint. Moreover, lending engagement should be closely integrated with CD activities.

- **Program conditionality should be clearly defined, taking into account the political economy, reform ownership, and implementation capacity.** There was a notable resistance to structural reforms, particularly in governance-related areas. During the election period, authorities' commitment to the program may wane without appropriate incentives. Attempting too many reforms simultaneously could delay priority reforms; thus, the reform agenda supported by SBs should be parsimonious. Priority reforms should be pursued when there is strong commitment from the authorities, typically at the outset of the program. The implementation of certain reforms should be guided by SBs on intermediate steps toward the ultimate goals, considering the authorities' weak implementation capacity but SBs focused on developing broad strategies and actions plans should be avoided whenever possible.
- **Implementing reform measures carries the risk of reversals, underscoring the need for strong ownership and robust contingency planning.** The amendment of the CBL Act in 2020 represented a significant milestone in bolstering the independence of the CBL. However, this achievement was compromised in 2023 amidst mounting budgetary pressures during the election campaign, leading to breaches of this law. Additionally, several revenue-enhancing measures were deliberately left unimplemented. These instances underscore the critical

importance of authorities' ownership of reforms and the necessity for contingency plans to address potential policy reversal. For example, establishing contingency measures to address spending overruns or revenue shortfalls could mitigate the risk of fiscal dominance triggering policy reversal. Furthermore, implementing an accountability framework or disciplinary mechanisms for violations of laws, regulations, or procedure manuals may also be essential to ensuring adherence to reforms once they are achieved.

- **While capacity development support has proven invaluable, hands-on training may be essential in certain domains.** For instance, technical assistance played a pivotal role in amending the CBL act and facilitating a seamless currency changeover. However, in some other areas, further training for technical staff may be warranted to ensure sustained progress of reforms introduced through CD initiatives beyond the conclusion of the program. Moreover, SBs associated with CD progress should be strictly limited to the cases where CD delivery is deemed a precondition for successful implementation of structure reforms.

Prerequisites and Priorities

21. It is crucial that the authorities demonstrate their strong commitment to policies to address identified challenges prior to engaging in new program discussions. To this end, fulfilling and reinstating certain policy commitments from the previous program would signify the new government's readiness for a new program. Conducting a comprehensive analysis of past shortcomings, particularly instances such as budget overruns, significant budget reallocations without oversight by the Legislature, and the CBL budget financing, is crucial to identifying areas for improvement. The authorities should then take decisive corrective actions in response to these identified issues. Additionally, securing the up-front buy-in of the Legislature for key reforms would be critical for timely adoption and implementation of reform measures.

22. A key lesson is that a successor program for Liberia should prioritize the following areas: (i) reinforcing the independence of the CBL by bolstering its governance and enhancing its operational efficiency; (ii) restoring fiscal sustainability through the rationalization of unproductive expenditure and the acceleration of revenue mobilization efforts; (iii) enhancing banks' regulatory framework, developing financial markets infrastructure, and preserving price stability; (iv) rebuilding depleted external buffers; and (v) directing significant governance reforms toward enhancing institutions and combatting widespread corruption. The governance reforms should initially be guided by measures identified in previous programs and CD engagements, followed by the findings of the Governance Diagnostic Study (GDS), which is tentatively planned for mid-2025.

23. Risks for a successor program include the following: (i) capacity constraints and implementation risks, given the wide array of reform needs and the magnitude of the necessary adjustments; (ii) constrained fiscal space, and the high risk of debt distress; (iii) significant vulnerability to external shocks, including volatility in commodity prices and climate-related events such as floods and rising sea levels; (iv) possible donor disengagement leading to a reduction of financial and technical support; (v) widespread corruption and resistance of vested interests against reforms and; (vi) social discontent and political instability.

The Authorities' Response to the Staff's Assessment

24. The authorities shared the staff's views on the need to have ambitious program objectives based on well-tailored and sequenced reforms. They noted a weak performance under the 2019-23 ECF-supported over its last 18 months of the program, despite a stronger performance during the first two years and a half. They acknowledged that the monetary financing by the CBL under heightened budgetary pressures is a clear indication of weak fiscal discipline and central bank safeguards. They committed to addressing them including through adopting the revised PFM regulation in line with the Fund advice and implementing the Safeguards Assessment recommendations. They also recognized that domestic revenue mobilization is crucial to achieve the fiscal anchor (primary balance) and therefore to improve the debt-to-GDP trajectory while noting that strict enforcement of relevant measures would require efforts and time.

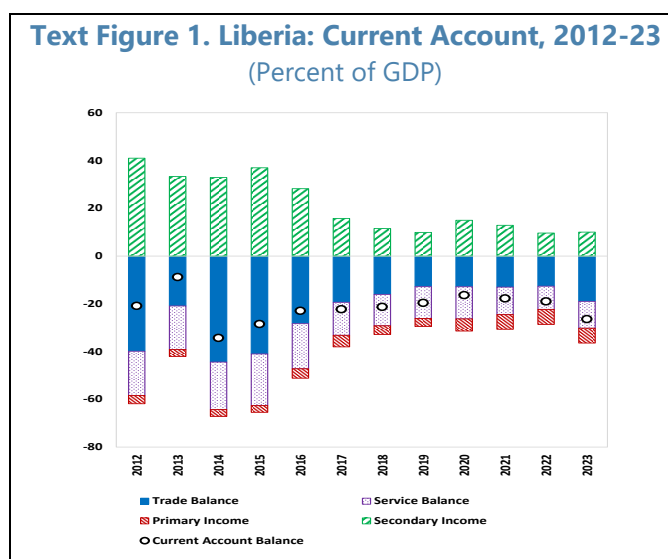
Annex II. External Sector Assessment

In 2023, Liberia's external position was substantially weaker than the level implied by fundamentals and desirable policies. Large current account deficits in 2023 were financed through a notable decrease in reserves along with non-debt-creating project grants, FDI flows, and donor loans. Due to election related fiscal slippages in 2023 and monetary financing of central government budget deficits, foreign exchange reserves have declined substantially from its decadal high in 2021 to its previous long-run low levels, as measured in months of imports. To address Liberia's long-term external sector imbalances, it is essential to develop competitive domestic industries to substitute imports and increase exports through structural reforms rather than exchange rate adjustments, which are likely to have a limited effect due to Liberia's dual currency system and high degree of dollarization. Therefore, improving the business climate, strengthening governance and institutional frameworks, and investing in key infrastructure such as roads and electricity should be prioritized.

Current Account

1. After narrowing during the previous program period, Liberia's CA deficit increased to 26.5 percent of GDP in 2023, but it is expected to decline in 2024 thanks to prudent fiscal policy, reduced budget deficits, and increased exports driven by favorable commodity prices. 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

2023, these improvements were largely reversed by strong imports of goods and higher investment income payments and widening central government budget deficits amid election. Text Figure 1 shows the evolution of the underlying components of the CA in the past decade.



2023, these improvements were largely reversed by strong imports of goods and higher investment income payments and widening central government budget deficits amid election. Text Figure 1 shows the evolution of the underlying components of the CA in the past decade.

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. Based on the CA model, the cyclically adjusted CA deficit stood at 27.6 percent of GDP in 2023 compared to a multilaterally consistent cyclically adjusted CA norm of -6.1 percent of GDP, implying a large gap of -21.5 percent of GDP. The positive policy gap was mainly driven by higher real interest rate and private credit growth gap relative to the rest of the world reflecting tighter monetary policy but

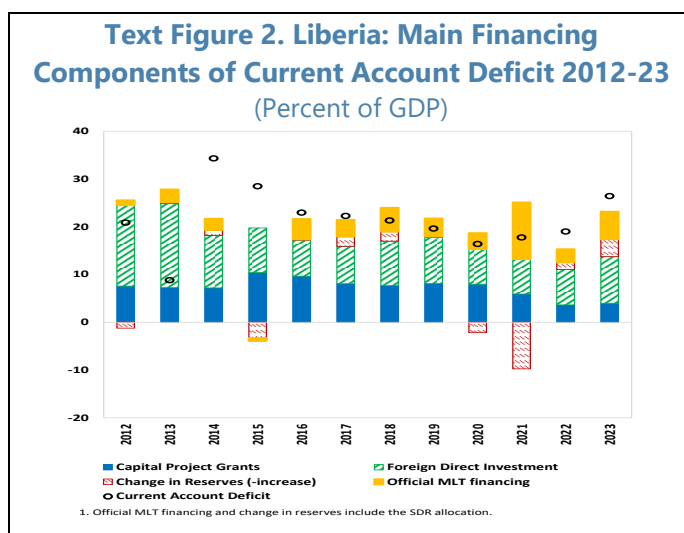
stronger credit growth. The sizable negative residual potentially reflects structural impediments and country-specific factors that are not captured by the model.

Text Table 1. Liberia: EBA-lite Model Results, 2023		
(Percent of GDP)		
	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	-26.5	
Cyclical contributions (from model) (-)	1.1	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	-27.6	
CA Norm (from model) 2/	-6.1	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	-6.1	
CA Gap	-21.5	-6.7
o/w Relative policy gap	1.6	
Elasticity	-0.3	
REER Gap (in percent)	80.7	25.2
1/ Based on the EBA-lite 3.0 methodology		
2/ Cyclically adjusted, including multilateral consistency adjustments.		

Capital and Financial Accounts

3. Liberia receives substantial project grants albeit declining in recent years, which are recorded in the capital account. While

there are data weakness, best available information puts inflows at a four percent of GDP on average in the last four 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, financing 15% of the CA deficit in 2023. However, grants have been declining over the past few years (from 8 percent of GDP in 2020 to 4 percent of GDP in 2023) and it is projected to decline further as the economy develops.



4. Under the financial account, Liberia benefits from sizable FDI inflows and donor loans.

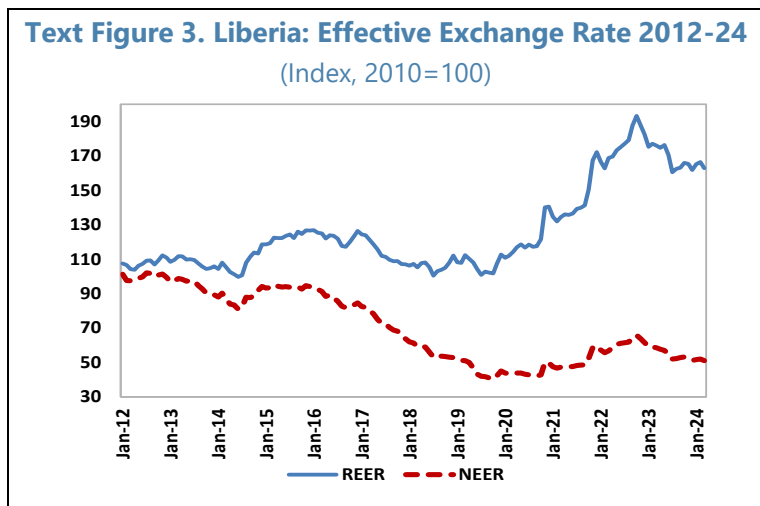
While caution is warranted due to data quality, the financial account balance reached 20 percent of GDP in 2023—thanks to sizable FDI inflows and medium- and long-term official financing. Despite its volatility in recent years, net FDI inflows and medium- and long-term official financing averaged 8.3 percent of GDP and 5.5 percent of GDP, respectively, during the past 5 years. In 2023, FDI

covered over 37 percent of the CA deficits in a non-debt-creating way and official financing, covered a further 20 percent of CA deficits at low financing costs. Text Figure 2 illustrates the evolution of main financing sources of CA deficits since 2012.

Real Exchange Rate

5. Both the nominal (NEER) and the real effective exchange rate (REER) started depreciating from early 2023, reversing its appreciation trend from 2020. Text Figure 3 depicts

exchange rate developments in the past decade. In the years preceding the pandemic, the nominal exchange rate depreciated 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 that, along with worsening terms of trade in 2022 and somewhat accelerating consumer price inflation, fueled further REER appreciation. With the currency-changeover ending the banknote shortage, imports growing strongly, and arguable some election-related flight to the safety of the U.S. dollar, the appreciation has reversed in 2023.



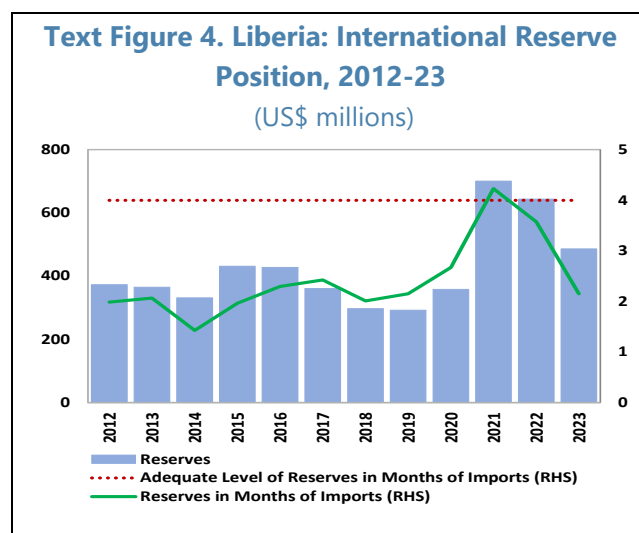
6. The EBA-Lite CA model suggests that the REER is substantially overvalued relative to the level implied by fundamentals and desirable policy settings. Considering Liberia's dual currency system and high degree of dollarization, with dollar-denominated exports, large import dependency, and extensive indexation, including of domestic wages, the exchange rate elasticity of the CA is low, and it would take a REER depreciation of over 80 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 exportable sector through infrastructure investment, structural reforms, and improvements in the business climate.

Reserves Level

7. Election related fiscal slippages and monetary financing of central government deficits reduced reserves in 2023. At US\$486 million, or the equivalent of some 11 percent of nominal GDP, reserves currently stand at 2.1 months of goods and services imports at end-2023 (Text Figure 4), below the adequate levels of reserves which is estimated at four months of imports.

8. Gross international reserves are assessed to be inadequate. 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 four 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 2023 was substantially weaker than warranted by fundamentals and desirable policies. However, it is noted that the large CA deficit in 2023 was primarily due to election-related fiscal slippages and CA deficit is projected to narrow in 2024. The current account is expected to remain in a significant deficit over the next few years due to increased imports from large mining projects in their investment phase and the high import content of external grants and project loans. The likely normalization of the unusually strong REER will provide only limited counterweight at least in the short run. Going forward, however, with increased prominence of Liberian dollar in the economy, it could play a larger role as a macroeconomic shock absorber. In the short to medium term, strong FDI and donor support should cover the current account deficit without depleting reserves or increasing foreign debt excessively. Nevertheless, such levels of financing cannot be guaranteed indefinitely. Therefore, Liberia should strengthen its external position by developing a competitive export sector, which is crucial for the country's development. Achieving private sector-led growth requires structural reforms, investment in infrastructure and transportation linkages (such as power plants, roads, and railroads), measures to improve governance and reduce corruption, and investment in human capital. Ongoing efforts to reduce dollarization are encouraged, as they will allow the exchange rate to play a more significant role as a shock absorber in the future.

Annex III. Enhanced Safeguards

The Liberia large outstanding debt towards the Fund as well as its high exposure to external senior debt required such enhanced safeguards. The share of Liberia's multilateral debt to total external debt is expected to remain high at an average of 93 percent over the medium term, with significant share jointly held by the IMF, World Bank, and other major development banks. Liberia's capacity to repay the Fund remains adequate but subject to significant risks emanating from high exposure to de facto senior debt, as well as from the Fund's exposure to Liberia. The country is amongst the PRGT's top exposures to the Fund, with indicators of debt service to the Fund well above the top quartile of past UCT-quality arrangement but declining over time. Liberia's economic prospects, implementation of sound economic reforms and strong track record of repayments to the Fund should mitigate risks to capacity to repay the Fund. The new ECF-supported program should bring down the PV of total public debt toward the threshold level while keeping the PV of external public debt well below the threshold level over the medium to long term.

Enhanced Safeguards 1A

1. The size of Liberia's de facto senior debt and other multilateral debt as a share of total external debt is around 92.5 percent (above 75th percentile) at end-2023 and is projected to increase marginally over the medium term (Text Table 1). This share will be around 94.1 percent at end-2026, assuming six disbursements under the new ECF arrangement. The debt held by institutions afforded preferred creditor status—the IMF, World Bank, and other major development banks—accounts for 88.7 percent of total external debt at end-2026 with very limited room for debt restructuring. Total multilateral debt as a share of GDP is projected to rise from 34.3 percent of GDP at end-2023 to 38.5 percent at the end-2026. Liberia has no collateralized debt.

Text Table 1. Liberia: Public Debt Composition, 2021-26
(Millions of USD, otherwise indicated)

Creditor Profile	Actual			Projections		
	2021	2022	2023	2024	2025	2026
Total Debt	1,869.5	2,158.4	2,582.0	2,718.1	2,925.0	3,078.9
External Debt	1,304.9	1,406.2	1,626.9	1,781.6	1,998.5	2,188.9
Multilateral Creditors	1,191.7	1,294.5	1,504.6	1,647.2	1,872.5	2,059.9
o/w: IMF and WB	885.2	949.0	1,081.9	1,211.9	1,436.9	1,624.6
o/w: IMF	278.3	262.8	228.3	247.2	271.6	288.5
o/w: World Bank	606.9	686.2	853.6	964.7	1,165.3	1,336.1
o/w: ADB/AFDB/IADB	193.9	218.0	249.2	275.5	295.7	316.2
o/w: Other Multilaterals	112.5	127.4	173.5	159.8	139.9	119.1
Bilateral Creditors	62.4	62.2	65.4	63.8	61.1	59.3
o/w: Paris Club	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Non-Paris Club	62.4	62.2	65.4	63.8	61.1	59.3
Private Creditors	50.9	49.5	56.4	73.6	89.9	116.2
o/w: Bonds	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Loans	50.9	49.5	56.4	73.6	89.9	116.2
Domestic Debt	564.6	752.3	955.1	936.5	926.5	890.0
Memorandum Items						
Collateralized Debt	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
Nominal GDP	3,508.9	3,974.4	4,390.5	4,755.7	5,051.2	5,350.7
Multilateral and Collateralized Debt						
Multilateral Debt						
Percent of External Debt	91.3	92.1	92.5	92.5	93.7	94.1
Percent of GDP	34.0	32.6	34.3	34.6	37.1	38.5
o/w: IMF and WB						
Percent of External Debt	67.8	67.5	66.5	68.0	71.9	74.2
Percent of GDP	25.2	23.9	24.6	25.5	28.4	30.4
o/w: ADB/AFDB/IADB						
Percent of External Debt	14.9	15.5	15.3	15.5	14.8	14.4
Percent of GDP	5.5	5.5	5.7	5.8	5.9	5.9
o/w: Other Multilaterals						
Percent of External Debt	8.6	9.1	10.7	9.0	7.0	5.4
Percent of GDP	3.2	3.2	4.0	3.4	2.8	2.2
Collateralized Debt						
Percent of External Debt	0.0	0.0	0.0	0.0	0.0	0.0
Percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Authorities' data; and IMF Staff calculations.

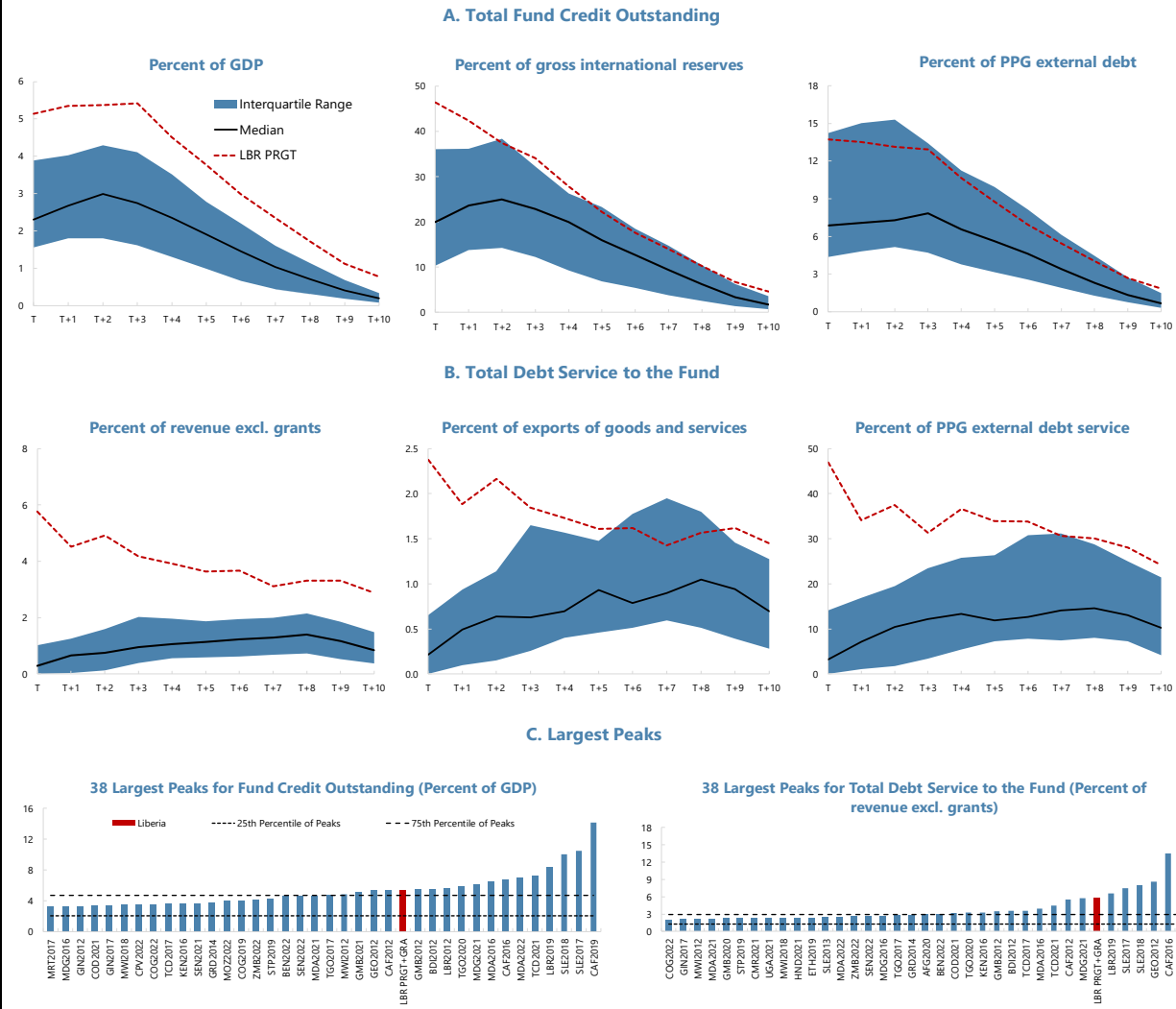
Enhanced Safeguards 1B

2. The Liberia’s capacity to repay the Fund remains adequate, but subject to risks given the Fund’s significant share in both external debt stock and debt service. The stock of Fund credit to Liberia as a share of GDP significantly exceeds the top quartile of past IMF UCT-quality PRGT arrangements and is amongst the PRGT’s top exposures to the Fund in the last decade (Annex II Figure 1). The stock of Fund credit as a share of GDP is projected to peak at 5.4 percent in 2027 and gradually decline and converge towards the PRGT median by end-2034. The projected path of other indicators presents a similar trend. The various indicators of debt service to the Fund are projected to peak in 2024 and gradually decline but remain persistently above the top quartile of past PRGT arrangements over the projected period. The capacity to repay the Fund is subject to downside risks, including slow reform implementation and fluctuations in international commodity prices. Nonetheless, risks to the capacity to repay are mitigated by the authorities’ strong track record of servicing their debt obligations to the Fund. In addition, the implementation of reforms under the new ECF-supported program that will strengthen public finances and improve PFM will mitigate the risks to the capacity to repay.

Enhanced Safeguards 2

3. A key objective of the new ECF-supported program is to bring down the PV of total public debt toward the threshold level of 35 percent of GDP. Liberia’s public debt is deemed sustainable but at moderate risk of external and high risk of overall debt distress. The external debt stock has increased with significant support from the Fund and World Bank during the years of Covid-19 pandemic and heightened food insecurity. The PV of external debt as a share of GDP at end-2023 remained in line with the previous DSA. The envisaged 2024-27 fiscal adjustment will reduce public debt from 58 percent in 2023 to 56 percent of GDP by 2027 and bring it further down in subsequent years. Building on some progress during the program period, the PV of public debt in percent of GDP is projected to decline over the medium term (around 36 percent of GDP by 2029). The PV of external public debt rises towards the threshold level of 30 percent of GDP, while remaining below it over the entire forecast horizon. The liquidity indicators are projected to remain below their respective thresholds over the forecast horizon in the baseline, even though near-term risk to liquidity might emerge.

Figure 1. Liberia: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries
(Percent of the indicated variable)



Notes:
 1) T = date of arrangement approval. PPG = public and publicly guaranteed.
 2) Red lines/bars indicate the CIR indicator for the arrangement of interest.
 3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.
 4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
 5) Comparator series is for PRGT arrangements only and runs up to T+10.
 6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
 7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.

Appendix I. Letter of Intent

Monrovia, September 12, 2024

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

Dear Madam Managing Director:

1. **We are pleased to update you on** (i) the progress made since the inception of this new administration and (ii) the primary goals of our medium-term economic development plan.
2. **Under President Boakai's vision and leadership, our main goal for economic policies has been the swift restoration of fiscal sustainability and the recently compromised policy credibility.** Facing immediate and significant challenges, primarily inherited from the previous administration, we have implemented several measures. These include conducting audits of the Central Bank of Liberia (CBL) operations in recent years that raised governance concerns and regularizing domestic and external obligations. These initial efforts have helped to rebuild confidence among International Financial Institutions (IFIs) and our extensive donor community. Our aim is also to demonstrate our capability and commitment to executing a credible and ambitious Fund-supported program. To this end, we have outlined a strong program in the attached Memorandum of Economic and Financial Policies (MEFP) to enhance macroeconomic stability, which is crucial for achieving sustained, inclusive growth.
3. **To successfully carry out our forthcoming structural policy agenda**—centered on Agriculture, Roads, Rule of Law, Education, Sanitation, and Tourism (ARREST)—it is vital to restore public finance sustainability by increasing revenue, reducing unproductive expenditure, and enhancing public investment. Our initial effort in this area focuses on the relentless rationalization of public spending. Going forward, a consistent increase in revenues will be essential for financing the accelerated renovation and expansion of our limited infrastructure while safeguarding the vulnerable segments of our population.
4. **Moreover, we are dedicated to enhancing the credibility of monetary policy.** The current prudent monetary policy will continue to alleviate price pressures, resulting in a steady decline in inflation and a stable exchange rate. A prudent fiscal policy, supported by de-dollarization measures—such as increasing the proportion of the Liberian dollar in public wage bill payments—will help to rebuild essential external buffers.
5. **Under our structural policy agenda, we will undertake extraordinary steps to foster entrepreneurship and private investments, expand the production base, and support job creation.** We recognize that achieving this goal is impossible without improving the rule of law,

governance, and ensuring complete transparency in public sector operations, including spending, borrowing arrangements, and the procurement bidding process.

6. To support the substantial adjustment effort this year, we have recently adopted a recast budget aimed at increasing revenues through additional measures and further rationalizing spending allocations. Enhanced debt management and administrative procedures, along with closer collaboration with our major IFIs creditors, namely the World Bank and the Africa Development Bank, will ensure timely fulfillment of our external and domestic obligations. In the recently adopted Public Financial Management (PFM) regulation, we have also recommitted, inter alia, to prioritizing debt service payments in the budget execution process.

7. To support our objectives, we request a 40-month Extended Credit Facility (ECF) arrangement, with access to SDR 155 million, which is about 60 percent of our IMF quota. Together with support from development partners, the proposed financing arrangement will close our external financing gaps as we embark on a multi-year adjustment effort.

8. We trust that the detailed policies and actions outlined in the attached MEFP will enable us to meet our program objectives. The proposed arrangement will be monitored through a set of quantitative performance criteria and indicative targets, including a series of prior actions and structural benchmarks, covering reform areas crucial for the program's successful implementation. While we have completed the updated safeguards assessment of the CBL, we assure you that all recommendations from the safeguards assessment will be fully and promptly addressed.

9. The Government of Liberia commits to providing the IMF with information on the implementation of the agreed measures and the execution of the program, as outlined in the attached Technical Memorandum of Understanding (TMU). Should further measures be necessary, we will consult with the IMF in advance on their adoption, in accordance with applicable IMF policies. We are committed to working closely with IMF staff to ensure the program's success and will provide the IMF with the relevant information necessary for monitoring our progress.

10. We authorize the IMF to publish the staff report, including this letter, the attached MEFP, and the TMU on its website and other media upon the IMF Executive Board's approval of the ECF arrangement request.

Sincerely yours,

_____/s/_____
Hon. Anthony G. Myers
Acting Minister
Ministry of Finance and Development Planning

_____/s/_____
Hon. Henry F. Saamoi
Acting Executive Governor
Central Bank of Liberia

Attachments:

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

Attachment I. Memorandum of Economic and Financial Policies

Introduction

1. The previous IMF-supported program expired in December 2023. The ECF arrangement started in 2019 at a challenging time for the Liberian economy when it faced high inflation of more than 30 percent and sharp nominal exchange rate depreciation—largely the result of monetary financing of fiscal deficits and speculation in the foreign exchange market. In addition, weak public financial management (PFM) undermined the implementation of fiscal policies, sizable operational losses of Central Bank of Liberia (CBL) drained international reserves, the state-controlled Liberia Bank for Development and Investment (LBDI) required urgent intervention by the CBL to avoid bankruptcy, and the overall governance issues that hampered the country's development. During this program period, the Fund also provided emergency financing support under the Rapid Credit Facility (RCF) to help address Liberia's urgent Balance of Payments (BOP) needs in the face of the global pandemic in 2020.

2. The program helped achieve macroeconomic stability in early years. Inflation was brought down to low single-digits within two years, the exchange rate had recovered and stabilized, and the fiscal deficit was reduced to manageable levels allowing to discontinue the practice of monetary financing of the budget for most of the program period. Despite the pandemic, international reserves had also recovered. Some progress on structural reforms were achieved, including the passage of the modern CBL Act and the amended Liberia Anti-Corruption Agency (LACC) Act, smooth rollout of the new currency changeover, and reduction in commercial losses of Liberia Electricity Corporation (LEC).

3. However, in the run-up to the 2023 elections the program implementation had unraveled. Since the second half of 2022, the period preceding the general and presidential elections in 2023, policy slippages and backtracking of some reforms undermined progress achieved previously. Lack of fiscal discipline and controls by the previous government allowed misallocation of resources from priority areas, which, in light of the significant underperformance of the revenue collection, led the CBL to provide direct credit to the government for civil servant salary payments, thereby averting a national crisis but violating the CBL Act. The General Auditing Commission (GAC) highlighted deficiencies in Public Financial Management (PFM) in its annual audits of budget execution, offering recommendations that were not pursued. The delayed reform of the banking regulatory framework, along with a lack of stringent enforcement, hampered the development of the financial sector. The CBL's direct credit to the government, combined with its failure to effectively manage operational costs, led to a significant decline of international reserves.

4. The new administration, which took office in January 2024, is determined to reinvigorate the country's development and arrest stagnation in economic welfare of the

population, with the backing of a new Fund-supported program. Undaunted by the fiscal problems inherited from the previous government, under the new program we intend to restore fiscal sustainability and scale up much needed investments in infrastructure. Faced with low international reserves, we are committed to implementing measures to rebuild the reserves and further restore the credibility of the CBL, thereby bolstering our resiliency against potential shocks. While our national development plan is still in the formulation stage, our agenda for structural reforms will prioritize boosting private sector investment and development, raising revenues to finance necessary infrastructure investment, and enhancing transparency and governance of the public sector and its institutions. A cornerstone of the President's election campaign and this administration's policy focus is governance reform. We recognize that corruption, which has infiltrated all levels of government and become normalized, significantly hampers private sector initiatives and exacerbates social and economic disparities. The new administration is unwavering in its commitment to combat corruption. We firmly believe that without substantial advances in governance reforms, any meaningful economic progress and improvements in the welfare of our citizens will be severely hindered.

A. Recent Economic Developments and Outlook

5. The economic expansion has continued. Liberia has sustained an average GDP growth of 4.7 percent in 2022-23, with projected acceleration to 5.1 percent in 2024. Growth is expected to reach 5.8 percent in 2025 and 6.0 percent over the medium term, supported by strong growth in mining activities, infrastructure investment with support from development partners and more vibrant economic activities aided by improved electricity supply. Robust growth in mining activities will benefit from substantial expansion of iron ore mining operations and the resumption of operations by other mining companies. Iron ore production is projected to double in the medium term and to triple by 2030. While remaining somewhat elevated, inflation is expected to slow down somewhat to about 6.6 percent at end-2024, supported by prudent monetary policies, and will further decline to 4.8 percent by 2027. Meanwhile, exchange rate volatility is expected to remain low in the medium term.

6. The fiscal situation significantly worsened during 2022-23. This was pronounced during the 2023 elections, with a sharp deficit increase due to tax revenue shortfalls and increased expenditures on goods and services. The previous government closed the large financing gap with CBL loans, which were provided in violation of the CBL Act and commitment under the ECF arrangement, and the accumulation of debt service arrears. The revenue-to-GDP ratio sharply declined to 13 percent, undoing all the progress achieved since the beginning of the earlier program. The previous administration failed to implement or adopt proposed measures in the 2023 supplementary budget to offset revenue losses. Furthermore, the practice of budget reallocations among Ministries, Agencies and Commissions (MACs) continued without the necessary legislative oversight, highlighting a disregard for budget processes and controls mandated by the PFM

legislation, as well as in internal regulations. In light of these serious concerns, the GAC embarked on a compliance audit, which has been completed and unveiled significant findings. Furthermore, a forensic audit targeting the suspense accounts was conducted by an international auditor, with its conclusions and recommendations made available in late July. The issues uncovered by these audits will be promptly addressed.

7. The high NPLs in the banking sector triggered asset quality concerns among banks.

There was a surge in NPLs, and average capitalization and liquidity indicators declined, although they remain above regulatory thresholds. A few banks, which failed to meet reserves requirements, were penalized through enforcement of the reserve requirement regulation, but the increasing net open foreign exchange positions poses a vulnerability against exchange rate fluctuations. Substantive progress is needed in restructuring the previously troubled state-owned bank for which a comprehensive financial audit has recently started.

8. The external position has weakened. Gross official reserves declined from its peak of 4.2 months of imports in August of 2021 to only 2 months of imports at the end-2023 due to the CBL on-lending of SDRs to the government, large monetary financing of the budget deficit, and the repayments of IMF obligations from previous disbursements. We aim to rebuild the external buffer during the program, gradually increasing reserves to 3½ months of imports by end-2027. Considering the large import content of external grants and project loans, the effective import coverage of international reserves, excluding imports tied to external financing, will be higher than the standard import coverage indicator suggests. While the expansion and construction projects of iron ore mines, financed by FDIs, are expected to widen the current account deficit during the construction phase, an increase in iron ore exports will mitigate this impact.

B. Economic and Financial Policies for the Program Period

9. Our national development agenda will closely align with the priorities outlined by President Boakai in his ARREST vision. Under this plan, the focus areas will be Agriculture, Roads, Rule of law, Education, Sanitation, and Tourism. These areas form the foundation of our development plan, which is under preparation and set to be completed later this year. Here's an overview of our specific goals:

- **Agriculture:** We aim to boost productivity by setting up machinery hubs, offering land preparation services to farming groups and cooperatives, and supporting large-scale farmers in key agricultural counties. Our strategy includes investing in modern farm equipment, facilitating large-scale seed multiplication, enhancing the rice processing industry, and improving access to agricultural extension services.
- **Roads:** Our commitment to improving road infrastructure involves significant investment in roads and bridges to enhance connectivity across Liberia and with neighboring countries. This

will include paving major highways, constructing feeder roads to improve market access for farmers, and ensuring efficient use of the National Road Fund through the establishment of the National Road Authority.

- **Rule of Law:** We are dedicated to implementing comprehensive reforms, including strengthening our partnerships in economic, security, cultural, and democratic governance; enhancing the capabilities of law enforcement; increasing police presence; fighting against corruption and other serious crimes; empowering the Drug Enforcement Agency; establishing a specialized court for corruption cases; and ensuring community involvement in policy development.
- **Education:** Recognizing education as crucial for Liberia's long-term development, we plan to make Early Childhood Education free and compulsory, strengthen Teachers Training Institutions, allocate resources for students with special needs, increase primary school enrollment, promote gender equality in education, and integrate technical skills development into the secondary school curriculum.
- **Sanitation and Water Safety:** We will reintroduce sanitary inspections, enforce hygiene practices, ensure access to clean drinking water and sanitation facilities, encourage waste recycling, and develop incentive packages for health workers in underserved areas.
- **Tourism:** With Liberia's rich potential for tourism, we will establish a National Tourism and Culture Authority, designate Grand Cape Mount County as a national tourism center, invest in the tourism industry, and work on preserving cultural heritage to boost tourism development.

10. The ARREST agenda will be based on six pillars: macroeconomic stability and infrastructure development; health, water, sanitation, environment, and climate; human capacity development; governance and rule of law; gender, youth, children, and social protection; and anti-corruption efforts.

11. Within the context of the IMF-supported program we will focus on four main objectives:

- **Restoring Fiscal Sustainability:** Acknowledging the short-term fiscal challenges faced by Liberia, primarily due to a lack of fiscal discipline and disappointing revenue performance in 2023, we are dedicated to reversing this trend. By reducing unproductive spending and enhancing revenue collection, our goal is to maintain a sustainable debt path. This approach will enable us to increase investments in infrastructure and human capital—key areas that not only attract official development support but also stimulate domestic and foreign private investments.

- **Rebuilding External Buffers:** We recognize the critical need to maintain international reserves at sufficient levels. To this end, we commit to solving the issues that have caused a significant decrease in our international reserves over recent years, ensuring financial stability and resilience.
- **Revitalizing Structural Reforms for Broad-Based Development:** Addressing recent health crises and a decade of stagnant economic development due to insufficient structural reforms, we aim to rejuvenate our reform agenda. Our focus will be on reforms that unleash the potential of the domestic private sector, fostering inclusive growth and development primarily beyond the large-scale foreign investments in natural resources.
- **Tackling Governance and Institutional Constraints:** A central pillar of our development agenda is to confront and resolve governance and institutional deficiencies. Upholding the rule of law, as strongly advocated by President Boakai, is paramount. As we finalize the new National Development Plan, efforts are already underway to strengthen integrity institutions and ensure that public administration operates in strict adherence to the rule of law, holding all violators accountable.

C. Fiscal Policy

12. Our key priority is to restore fiscal sustainability and discipline. We are committed to achieve a fiscal adjustment of 6.6 percent of GDP by the end of the program in 2027 through a combination of spending rationalization and domestic revenue mobilization. The fiscal anchor will be a primary surplus of 2.5 percent of GDP, to be achieved by 2027. This will allow us to stabilize the overall public debt at 56 percent of GDP, with a notable reduction of the highly expensive domestic debt. Being mindful of the need to keep the debt burden on sustainable levels, we will pursue a prudent borrowing strategy by securing primarily concessional loans or grants during and beyond the program horizon. We have cleared outstanding external and domestic arrears and are current on our external debt service obligations.

13. The Legislature adoption of the 2024 recast budget is based on realistic assumptions of revenues and a careful spending prioritization (Prior Action). The supplementary budget reflects realistic non-tax revenue projections, and also include a few measures to mobilize additional revenues in the amount of US\$10 million for the remaining months of 2024, which are needed to finance our domestically financed public investment.

14. With the recast budget, we are committed to:

- a) Strictly enforce tax expenditure measures adopted last year, including narrowing investment incentives, and impose surcharges on imports by a number of infant industries, requiring a

presidential executive order to re-establish the import surcharge of 5 percent for a set of goods.

- b) Expand the GST base and increase the rate to 12 percent from 10 percent for selected items, including gambling and legal services, that would not affect the vulnerable segment of population **(Prior Action)**. The President has also issued an executive order to restore import surcharges for a list of selected goods, which are produced domestically as well. This GST rate increase will contribute to ensure a smoother transition to the VAT regime, which will replace the GST by January 2026.
- c) Increase the capital budget envelope, which is now more than double of the 2023 outturn.
- d) Use additional revenues beyond the recast budget projections to reduce the stock of expensive domestic debt and to further increase public investment within the fiscal targets such as the primary deficit ceiling.
- e) Rationalize unproductive spending, in particular goods and service. Goods and Services will be substantially reduced from 7.1 percent of GDP in 2023 to just above 3 percent of GDP in 2024, while remaining close to this level throughout the program projections.
- f) Slightly reduce the nominal wage bill compared to the 2023 outturn. However, this will generate a substantial saving in terms of GDP, from 7.1 percent in 2023 to 6.3 percent in 2024. Moreover, the Civil Service Agency (CSA) issued a circular to suspend the salary payments for 6,387 government employees that have remained unverified since the 2022 GAC audit. The suspension will continue until the employment status is verified with biometric identification **(Prior Action)**. Further, employees who fail to verify their employment status within 60 days following the issuance of the circular will be eliminated from the public sector payroll. We will inform the Fund about the progress on a monthly basis—on September 20, October 20 and November 20, 2024. The final goal is to have a more efficient public administration while minimizing deadweight costs. Such payroll cleanup might generate modest savings in 2024. However, from 2025 onwards, the projected savings will be substantial, which will help keep the wage bill constant in real terms throughout the program horizon.
- g) Allocate sufficient resources to repay our external and domestic debt obligations in full and on a timely fashion.

15. Accelerating domestic revenue mobilization is crucial to support our development agenda. Modernization and expansion of our vital infrastructure is a key step to achieve the development goals. In pursuit of this, we will introduce a number of new tax policy measures designed to increase our annual revenue by 2.3 percent of GDP by 2027. The recently adopted VAT law is an essential step forward. Furthermore, we have developed a detailed implementation plan

for the introduction of VAT in the 2026 budget. This would imply that in the next 16 months all preparatory work, including the adoption of the needed VAT regulations and relevant amendments to the Revenue Code, will be completed. This initiative will proceed with the support of the IMF and USAID experts.

16. In the context, we are also committed to enhance tax mobilization from the natural resource sector. Currently, the revenues share from the natural resource sector is small relative to size of this sector in the economy. Therefore, we have recognized the needs for mobilizing additional revenues through adopting policy reforms. With the support of the Fund technical expertise, we would like to transition from the current ad-hoc concession system to a structured framework, within which bilateral concession agreements will be designed to ensure a fair distribution of risks and benefits associated with each mining project and help minimize exemptions and streamline tax expenditures by giving a greater focus to those able to support economic development and job creation. To this end, we will resume the regular publication of a comprehensive Tax Expenditure report, as a budget annex. The LRA will enhance and expand the current tax exemption database while ensuring regular updates. Moreover, on tax administration, our objective is to improve tax compliance and collections through improvement in governance and institutional changes with the support from the IMF and our development partners.

17. A sustainable fiscal consolidation and an efficient use of public resources require an enhanced medium-term budget plan to support expenditure prioritization within the available fiscal space and set expenditure ceilings. To achieve this, we adopted and will adhere to a revised PFM regulation (**Prior Action**) that would (i) limit budget reallocations; (ii) prioritize debt service obligations; (iii) minimize cash payments; (iv) align the budget presentation with international standards; and (v) penalize MACs not following the public procurement laws, and (vi) ensure that the Comptroller and Accounting General (CAG) will issue payment orders only after a carefully verification of the liquidity availability at the Treasury Single Account (TSA) and in line with the monthly cash management plans. The PFM regulation has incorporated key recommendations from the recent compliance and forensic audits, and it will also enhance the reporting and transparency processes. Going forward, we will adopt, with the IMF support, an action plan to implement the new PFM strategy by September 30, 2024 (**Structural Benchmark**), which will address other critical PFM areas.

18. Going forward, we are also planning to revise the PFM Act. We are committed to improving some sections of the Act, to strengthen the accountability requirements in particular those related to the Legislature's role in discussing and reshaping the government's budget proposals and the government's discretion in changing the approved budget during the execution. The objective is to narrow down and refocus the Legislature's large discretion in reshaping government's proposal budgets. In particular, an increase in the revenue projections during the Legislature's approval process should accompany new policy measures underpinning the additional revenue, supported by a thorough analytical assessment by the MFDP and LRA. In parallel, the

power of the government to change the budget during the execution will be reduced and substantial changes would require prior approval by the Legislature.

19. Assessing and monitoring our public finances require a close alignment of our budget preparation and presentation to international standards. With the support of the IMF technical expertise, we are committed to aligning our budget preparation and presentation to the international standards, by: (i) distinguishing between revenues and financing (external and domestic), and (ii) properly classifying the two key components of debt service, namely interest and amortization costs. This new budget presentation will contribute to enhance our reporting system, which will focus on monitoring the primary balance, key indicator to ensure debt sustainability. We are also happy to report that the Legislature will enhance its regular accounting and financial reporting system to the MFDP, as required by the current legislation.

20. Establishing a fully functioning Treasury Single Account (TSA) will ensure an effective control of available cash balances on a daily basis. With the functioning TSA, the CAG can ensure timely payments according to monthly cash plans, without incurring into arrears, in particular for debt service payments, like in the recent past. While little progress was achieved in recent years, we are strongly committed to re-initiate and accelerate such critical reform for liquidity management. We have already launched a comprehensive survey of GoL accounts still open at the CBL and commercial banks, which are currently estimated to be in the range of 1,150-1,300 accounts. Now that the survey has been completed, we are committed to close all GoL accounts (December 2024) outside the TSA parameters, with the exception of donor-funded and SOEs accounts, as recommended by the 2021 TSA concept note.

21. To ensure a budget execution in line with the budget and available resources, we revamped Treasury Management Committee (TMC). TMC meetings will allow us to have a comprehensive view of current and forecast liquidity situation, which is necessary to prepare prudent cash plans, based on available and expected available resources, largely revenues. Cash plans will be instrumental in setting monthly allotments and commitment ceilings for each spending agency (currently 108). Together with the fiscal report on budget execution, these reports will be shared with IMF staff, on a monthly basis.

22. Like in the past, the General Auditing Commission (GAC) will submit the regular audit of the 2023 financial statements to the Legislature. In line with the legislation, the government submitted the 2023 financial statement on April 29, 2024, and the GAC will finalize the audit report by September 30, 2024. Moreover, to better understand the causes of the large fiscal deterioration in recent years, including the use of CBL foreign reserves in contravention to the CBL Act, we have requested the GAC to perform: (i) a comprehensive audit of the MFDP, covering the period 2020-2023; (ii) a special audit on the Debt Management Unit (DMU); and (iii) a forensic audit of the Integrated Financial Management System (IFMS).

23. Protecting social and other priority spending will help to tackle the unacceptable high poverty levels. With the forthcoming ARREST Development Plan, we will recommit to explicitly increase and safeguard social and other priority spending, namely the wages for teachers and health sector workers. The objective is not only to protect these budgetary spending (**Indicative Target**) from any fiscal consolidation efforts, if needed, but also to increase them over time.

D. Monetary, Foreign Exchange and Financial Sector Policies

24. Monetary policy will continue to focus on price stability. Inflationary pressures eased in the first half of the year, with inflation slowing to 6.2 percent in June from a 10.1 percent average over the period January-April. Excess liquidity in the banking system and exchange rate depreciation receded. Yet, risks to inflation outlook in the near term remain, with potential further increases in international prices of rice (the main staple food in Liberia). We maintained the policy rate at 20 percent during our Monetary Policy Committee sitting in May of this year. We consider the current policy stance sufficiently tight to contain inflationary pressure and to achieve gradual disinflation towards our medium-term inflation objective of 5.0 percent. We will continue to closely monitor domestic and global economic developments and stand ready to tighten our policy stance in response to any emerging inflationary pressure. The CBL bills will remain our main policy tool to achieve price stability, complemented by reserve requirements on Liberian dollar. To this end, we stand ready to issue CBL bills as needed and to ensure compliance with the reserves requirement to actively manage liquidity in the system and to contain excessive growth of domestic monetary aggregates. To limit excessive growth of currency in circulation, the MFDP will ensure that MACs keep cash withdrawal at the CBL to a minimum in line with the PFM Regulation. The CBL has not intervened in the FX market since 2019 and will limit any interventions to lean against disorderly market conditions and prevent excessive exchange rate volatility from de-anchoring inflation expectations.

25. The rollout of the currency changeover continues to proceed smoothly. The delivery of the new currency into the country resumed this year following a temporary restriction in 2023 as the Legislature disallowed deliveries of new currency in the election year. As of June 2024, over 90 percent of the order of the new currency has been delivered and the rest of the order is scheduled for delivery in third quarter of the year. About 70 percent of the new currency have been injected/infused into economy, at least 90 percent of the old currency have been withdrawn from circulation and destroyed. The remaining new currency, including deliveries this year, will be sufficient to replace the remaining old currency and to meet the expected demand over the medium term. This will ensure availability of good-quality currency in the economy, which is critical for financial stability. With this progress, the CBL terminated the legal tender status of the old currency in May while allowing the exchange of the old currency to continue only at the CBL facilities across the country until the rest of the old currency is withdrawn from the circulation.

26. We will continue to strengthen our monetary policy framework. With sufficient good-quality banknotes now available, we are upgrading our monetary policy framework. The CBL is committed to the use of interest rate-based monetary policy framework with the long-term goal of adopting an inflation-targeting framework. Enhanced monetary policy operations, financial deepening, and flexible exchange rate will facilitate this transition. We have removed the ceiling on the amount of outstanding CBL bills and reserved short-term (two-weeks) CBL bills for main monetary policy operations, with only commercial banks participating in the auctions. The longer-term (one-month and three-months) CBL-bills auctions are now reserved for structural liquidity management. To broaden the monetary policy tool kit and strengthen the traction of monetary policy (supplement the main monetary policy tool), the CBL adopted new regulation on reserve requirements with provisions for more frequent adjustments of reserve requirement ratios for monetary policy purposes. To help enhance policy effectiveness, the CBL will establish and operationalize the interest rate corridor system with two operational standing facilities—standing credit and deposit facilities—by the end of the year. To deepen FX markets, the CBL will consider enhancing FX auction guidelines and mechanism to better regularize FX market transactions and revitalize commercial bank participation.

27. The deviation from our commitment and the CBL Act highlighted the necessity to further reinforce the independence and governance of the CBL. The deviation includes the CBL's provision of loans to the government, guarantee and grant to two commercial banks during 2023-24. To address this issue, we commit to compile a time-bound, CBL Board-approved action plan, in consultation with IMF staff, for implementation of the recommendations contained in the forensic audit of suspense accounts and the GAC compliance audit by end-December 2024 (**Structural Benchmark**), progress with the implementation of which would be reported and monitored by the CBL Board on a quarterly basis. Further the CBL launched an independent legal review of the CBL transactions involving two commercial banks (**Prior Action**). This review aims to (i) ascertain whether these CBL operations contravened any Liberian laws, regulations, and CBL internal policies, and (ii) identify the corrective actions to remedy any governance weaknesses affecting the CBL decision-making processes. The independent legal review should be completed within 2 months after its initiation. We also improved our internal regulation to limit the CBL's clearance of government checks to US\$500,000 during system glitches, when it cannot confirm the revenue inflows in real time. We reiterate our recognition that under the CBL Act, the CBL may extend credit to the government only under exceptional circumstances such as war, famine or other natural disasters, subject to the maturity limitation and the aggregate principal ceiling. The CBL will honor neither GoL checks nor GoL payment instructions against underfunded GoL accounts. Such checks will be returned to the government with monetary penalties. The CBL will also strengthen the regulatory framework governing check clearing procedure to disallow commercial banks to provide immediate value for GoL-issued checks before presenting such checks for clearing at the CBL.

28. Improving operational efficiency and reducing operational costs will remain one of the key focuses of the reforms at the CBL. Enhancing cost efficiency and increasing income are key to eliminate the CBL's persistent operating losses. As part of cost-cutting measures, the CBL will reduce the number of fixed-term contractual personnel largely deployed for the almost completed currency changeover by 66 by end-August and by additional 104 by end-2024 (**Structural Benchmark**). The CBL will also identify the optimal allocation of staff by departments in line with the recommendations of the upcoming IMF Capacity Development (CD) mission on enhancing operational efficiency. This will help us to restructure some of our operations with a view to achieving greater efficiency while reducing costs. We expect to have an overall reduction in staff complement whilst, at the same time, reinforce key departments that need more expertise (e.g., Regulation and Supervision Department, including on banking resolution issues; and the Research, Policy & Planning Department). A potential need for additional staff and recruitment will be informed by the abovementioned IMF CD mission. In addition to reducing the operating costs, we will consider ways to increase revenues. This could include but not limited to active, but prudent, management of foreign reserves, revising the fee structure for CBL services rendered to financial institutions and government.

29. We are committed to rebuilding international reserves at around 3.3 months of imports cover in the medium term to safeguard external stability. To achieve this, we plan to accumulate foreign reserves gradually through cautious and opportunistic purchases of foreign exchange by the CBL from the government, given the limited avenue in the market. The CBL and the MFDP agree to strengthen collaboration through regular Liquidity Working Group meetings to determine and facilitate regular foreign exchange purchases, with a total amount of at least US\$20 million targeted for this year, and to gradually scale up the pace of the FX purchases in the subsequent years. In this context, the government commits to progressively and gradually raise the share of public sector wage bill paid in Liberian dollars (LRD) from the current 20 percent to 25 percent in 2024, and further to 40 percent by 2027. Further, the government will increase the use of LRD in other transactions to the extent possible. Similarly, 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. We will also encourage other government agencies to follow suit. Following GAC recommendation to comply with the CBL Act and against the backdrop of limited fiscal space, we revise the terms of the 2023 CBL loan to the government to pay back US\$83 million through 60 equal monthly principal repayments during 2025-29 (**Prior Action**). The interest rate applied to monthly interest payments will be 4 percent. These will help rebuild Liberia's international reserve position, which has deteriorated from a peak of some 4 months of imports right after the August 2021 SDR allocation by the IMF to around 2 months in mid-2024. We are also considering drawing up a formal and detailed de-dollarization plan that will include measures in prudential regulation and administrative area among others to promote the use of Liberian dollars within the economy.

30. Strengthening banking supervision and underpinning financial stability remains one of our key reform priorities. We have re-submitted to the National Legislature the new Bank-Financial Institutions and Bank Financial Holding Companies Act (BFIA) and are preparing the necessary rules and regulations to swiftly implement the new Act upon its approval. We commit to ensuring that the new Act will be enacted by December 31, 2024. The new legislation will, among others: (i) enhance banking supervision; and (ii) anchor the resolution function in legislation, providing the CBL with broad powers for dealing with distressed banks. We are receiving capacity development assistance from the Fund to improve the quality of financial soundness indicators and also to strengthen risk-based supervision to effectively identify and address key vulnerabilities in banks.

31. Going forward, the CBL will develop financial safety nets, with a primary focus on the bank resolution framework. The CBL will approve operational guidelines and policies for bank resolution in line with the IMF recommendations by December 31, 2024. In addition, the CBL will designate specialized staff for the implementation of the resolution function (resolution unit) by December 31, 2024. Our specialized staff on bank resolution issues started getting the necessary expertise on bank restructuring and resolution, which will be complemented with the attendance to a regional IMF training organized at the African Training Institute (ATI) in the first quarter of 2025. In the medium term, we aim at having a financial stability division that would host the resolution function with its own staff different from the Regulation and Supervision Department and with a different reporting line to the Board of Governors of the CBL through the appropriate managerial structure to avoid potential conflicts of interest between both functions.

32. Strict enforcement of regulatory requirements is critical for maintaining financial stability and banking soundness. We are committed to (i) strictly enforcing the new schedule of penalties for reserve requirement violations and the new provisions for more frequent adjustments of reserve requirements for monetary policy purposes; (ii) discontinuing the granting of ELA beyond permissible periods, (iii) abolishing uncollateralized CBL loans to banks, developing a strict timeline for compliance for outstanding CBL's exposures towards banks; and (iv) performing a study of the suitability of the current regulation on large net open FX positions and make adjustment to the regulation if necessary, ensuring strict adherence by banks to the updated provisions going forward.

33. We are committed to tackling the high level of NPLs in the system. We continue to implement regulatory initiatives aimed at improving banks' asset recoveries, such as the credit bureau with simultaneous access to the movable collateral registry, which will be operational by end-December 2024. Given the divergent levels and nature of NPLs among banks, the CBL will request each of them to develop a detailed diagnosis of their respective NPLs, with a stratification by quantity, collateral and type of borrower (retail, small and medium companies, and corporates) by end-October 2024. Based on such NPL diagnosis, the CBL will develop a multi-pronged strategy to deal with the NPLs and will explore the optimal strategies tailored to the specific situation of each

bank with support from the Fund and considering the existing legal framework and market conditions in Liberia. We will start implementing the NPL strategy before end-December 2024. However, we will refrain from creating a state-supported asset management company (AMC) given that its creation would only be justified in a systemic crisis because of the potential risks and costs that its establishment would involve for the taxpayer. In accordance with the existing legislation, we are requiring banks timely provisioning of NPLs and to write them off after two years in the loss category have passed. We are monitoring that banks rigorously apply IFRS 9 accounting rules. Going forward, we are committed to improve prudential loan loss provisioning regulations by aligning them to the “expected losses” model.

34. LBDI has taken important steps, and it is committed to continue advancing with the necessary reforms. A year ago, LBDI’s Board of Directors appointed a new CEO and CFO. Now LBDI is committed to approve the appointment of a Chief Risk Officer, as a matter of priority, to reinforce and steer the bank’s risk management function. In parallel, a sound and credible restructuring plan is being developed by the new management team, and the CBL is keeping close oversight of the bank’s performance and activities. In addition, LBDI is going to act on the findings of the independent external review of its NPL portfolio by: (i) improving lending standards throughout the life cycle of the loans (for granting, monitoring and eventually restructuring loans); (ii) enhancing loan disbursement procedures; (iii) ensuring adequate classification of loans and proper loan loss provisioning; (iv) discontinuing the practice of accruing interests on NPLs and reverting those incorrectly accrued to date; (v) ensuring adherence to strict rules on related party lending and (vi) increase collections on NPLs, with special attention to delinquent borrowers who are able to service their loans.

35. We are committed to advancing firmly with the restructuring of all troubled banks. The CBL will act upon the findings of the recent independent external review of the NPL portfolio of LBDI and require the bank to develop a plan with the aim to ensure timely remediation of the important weaknesses identified. In addition, we have initiated an independent audit of this bank, which involves a reinstatement of its financial accounts (**Prior Action**). This will enable the authorities to identify the existence and magnitude of additional capital required and seek ways to address it. Any injection of capital will be accompanied by a credible restructuring plan to ensure the viability of the bank. We are also resolute in addressing other problem banks by requesting them to develop a restructuring plan to remain viable. In parallel, the CBL is preparing resolution plans that would be implemented if necessary to preserve financial stability and protect depositors and ensure that any use of public resources would be subject to strict safeguards. The deadline for the development of restructuring and resolution plans for all problem banks is March 31, 2025 (**Structural Benchmark**).

36. We are committed to addressing the CBL governance concerns and risks identified by the IMF and to ensuring that risks in problem banks are properly addressed. This May, the CBL extended an US\$8 million grant to one of the smallest banks which had suffered from liquidity

insufficiency due to entreaty to settle legacy deposits. This grant enabled the bank to settle its overdraft position to the CBL. In addition, to facilitate a takeover of another troubled small bank last year, the CBL committed to: i) issue a guarantee for the most part of the bank's NPLs (US\$6 million out of US\$6.4 million); and also committed to ii) cover the costs associated with a legacy court case that has recently materialized, creating an additional US\$2.9 million liability. To examine whether these transactions were in line with Liberian laws and the CBL regulations, we commissioned an independent review **(Prior action)**. Based on the recommendations of this review and IMF advice, we will prepare an action plan to address any unlawful transactions. In the meantime, we are committed to halt the US\$6 million non-disbursed guarantee. These two small, troubled banks are being subject to stricter supervision and the CBL is preparing resolution plans to be ready to act swiftly if needed. We are committed to ensuring that any future intervention of the CBL would be done in its capacity as lender of last resort and subject to strict and adequate safeguards in line with international best practices. Furthermore, any potential capital injection into a commercial bank should be clearly justified on financial stability concerns and originate from the government subject to strict conditionality to minimize the use of taxpayer's money and ensure its recovery.

E. Debt Sustainability

37. The DSA maintains Liberia's risk of debt distress as moderate for external debt and high for total public debt with weak debt-carrying capacity. To strengthen debt sustainability, which weakened over 2023 due to the large fiscal deterioration, we are committed to returning to prudent fiscal policies and will prioritize concessional financing. To this end, we aim to continue to reduce the primary deficit in the coming years. Over the longer term, we recognize that concessional support is likely to be on a downward trajectory and will be partially offset by external—and domestic as the debt market develops—non-concessional borrowing to finance public investment and growth. This would imply that our borrowing space will be more limited to maintain the moderate risk of external debt distress. We will continue to focus on improving the debt management capacity and medium-term debt strategy and will be very selective in identifying the externally funded projects that would bring the highest economic return, which would help us adhere to the program ceilings on the PV of new PPG external borrowing.

38. We recognize the debt management needs further strengthening in order to better plan budget resources for debt service payments and to avoid any reoccurrence of arrears, both domestic and external. To this end, we will follow up on the recommendations of the IMF CD mission. Namely,

- MFDP will continue to strengthen its capacity to produce debt sustainability analysis on annual basis reflecting current macro projections. In addition, preparing medium-term debt strategy will help us inform the debt financing limits during the budget preparation process and contribute to a more accurate DSA.

- Improvements in the PFM Act or its Regulations assigning all debt management and related tasks and functions directly to the Debt Management Unit (DMU). We will review existing acts and regulations that would better specify the DMU's function.
- The Debt Management Committee (DMC) meetings will be regularized. We have restarted holding regular DMC meeting to discuss proposals for potential borrowing. DMU serves as a secretariat for DMC. No government borrowing or guaranteeing decision will be valid without DMC's consideration and approval.
- During the budget presentation, we will engage with the Legislature to explain and provide background information behind the debt service projections so as to avoid Legislature's decision to reduce and underbudget the amounts allocated for debt service leading to potential arrears or default.
- To mitigate risks of misinformation and poor budget planning and execution with respect to debt service payments, we will develop and strictly adhere to the Debt Management Policy Manual that would ensure proper documentation and information flow between various departments and agencies.
- We will consider the need for additional staffing and/or training to improve the effectiveness of the DMU.

F. Governance

39. We are committed to enhancing the operational capacity of the Liberia Anticorruption Commission (LACC) by ensuring the provision of essential human, financial, and technical resources to facilitate its effective function. A comprehensive document analyzing the resource requirements for the successful implementation of the LACC's operations will be developed and shared with the International Monetary Fund (IMF) for consultation by September 2024. This document will detail the rationale behind the allocation of resources, ensuring transparency and accountability in our processes. Additionally, the LACC will enact the necessary implementing regulations to adhere to its mandates as stipulated under the Liberia Anticorruption Law. This includes undertaking research, conducting surveys, and generating studies to identify the root causes of corruption within Liberia, alongside formulating and implementing strategies to mitigate such corruption. In alignment with these objectives, the LACC, alongside pertinent authorities, will facilitate the provision of all requisite information and support for the execution of a governance diagnostic study by the IMF, which is planned to start in mid-2025. Following the study, the LACC will formulate a strategic implementation plan to address the recommendations issued, committing to the application of all necessary measures for its execution. Furthermore, we pledge to advance the effective implementation of the asset declaration framework as mandated by the Anticorruption Law. This entails the completion of pending tasks related to the asset declaration process, including

the establishment of internal regulations and tools for the comprehensive management of asset declarations by December 2024. This also encompasses the implementation of regulations governing the criteria for public disclosure of asset declarations, the development of asset declaration guidelines and forms, and the design of a risk-based strategy for the prioritization of the verification and assessment of asset declarations.

40. Strengthening governance and accountability is the cornerstone of our reform agenda. Although there were delays, the appointment of the new Liberia Anti-Corruption Commission (LACC), LACC has begun its work in rooting out corruption by already bringing four cases to the court. The work is ongoing in investigating a number of other corruption allegations and this work will remain a priority. General Auditing Commission (GAC) is undertaking a number of special audits that would help identify potential improprieties in the use of public resources, as well as identify weak points in financial reporting and accountability systems. Despite fiscal constraints, the government commits to providing sufficient resources to integrity institutions. To inform the longer-term policies to address governance deficiencies, the authorities have requested the IMF for a governance diagnostic study which is expected in 2025. The findings of this study will help identify key weaknesses and priority actions, thereby bolstering program implementation efforts.

41. Improving public procurement and contract transparency is imperative for strengthening public financial management. We recognized that many MACs in the past failed to submit comprehensive procurement plan to the Public Procurement and Concession Commission (PPCC) on a regular basis, and contract award publications have been notably delayed. To ensure that government spending units strictly adhere to the required public procurement procedures, we introduced in the new PFM regulation the provision for penalties for MACs not submitting procurement plans and hold noncompliant procurement officers accountable. In addition, we are working to move to e-procurement to make procurement process more transparent and smoother. We are revising the PPCC act to increase compliance by introducing various measures, as well as increasing its scope and substance e.g., by including definition of beneficial ownership. Furthermore, we are aiming to step up implementation of PPCC act by educating and training procurement officers.

42. The National AML/CFT Strategy and Action Plan (AS-AP) 2022-2025 should be re-evaluated to take into account the findings of the recent Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) led mutual evaluation. In keeping with the AS-AP and the country's AML/CFT risks, the authorities will establish a comprehensive workplan and timeline approved by the Cabinet for the implementation of Liberia's multipronged approach to ensure transparency of beneficial ownership of legal persons through the collection, maintenance, and accessibility of up to date and accurate beneficial ownership information in line with staff's advice by March 31, 2025 (**Structural Benchmark**). This includes measures to (i) fully implement the Liberia Beneficial Owner Disclosure Regulations (including the development of a National Central Register of Beneficial Owners); (ii) ensure the collection of accurate and up to date beneficial

ownership information by all financial institutions and designated financial businesses and professions; (iii) incorporate beneficial ownership disclosure requirements in procurement requirements; (iv) ensure licensing requirements for all financial institutions and DNFBPs incorporate beneficial ownership considerations; and (v) ensure beneficial ownership requirements are extended to and enforced with respect to the all entities registered by the Liberian International Ship and Corporate Registry and all entities operating in the extractive sector. The authorities also intend to increase resources to the Financial Intelligence Agency to enable it to carry out its core intelligence analysis and supervisory functions. An important priority is the establishment and implementation of legally binding licensing requirements for all designated nonfinancial businesses and professions in 2025. To combat the risks of illicit financial flows, the authorities plan to issue, in 2025, the necessary regulations governing wire transfers including to ensure that parties handling wire transfers comply with obligations under relevant United Nations Security Council Resolutions.

G. Statistics

43. We will continue to work closely with the IMF capacity development assistance to improve the quality of our statistics for effective program monitoring. We have completed the compilation of the 2016–22 annual GDP estimates (both at current and constant prices), including a document on the description of the sources and methods used for the compilation. The new GDP series for 2016–22 was finally published in July 2024. We will finalize the compilation of the 2023 GDP estimates and backcasting of the GDP series for the period 2010–15 under the guidance of the IMF CD assistance, for publication in the first half of 2025. We have improved the quality of price statistics (consume price index (CPI)) by updating the CPI basket with news items and varieties and removing obsolete items from the basket. The refreshed CPI was published in March 2024 for February 2024 CPI. We will continue with the process of developing a producer price index (PPI) and expanding the CPI coverage to include all counties in Liberia. We will pursue improvements to fiscal and debt statistics drawing on recent IMF CD assistance to improve the scope and coverage of statistics, and classifications and comprehensiveness of transactions and stocks. We will follow through the recommendations of IMF CD assistance on monetary statistics and financial soundness indicators to enhance the quality this data and ensure that it is available on a timely basis.

44. We will significantly improve coverage and accuracy of the balance of payments by following technical recommendations provided by IMF CD assistance on External sector statistics, including but not limited to 1) increasing coverage and compliance in reporting of quarterly international investment survey, 2) resuming hotel survey 3) increasing compliance of banks to report regularly to International Transactions Reporting System, and 4) improving classifications in the remittance system. We will also improve data collection procedures including data validation and follow up actions with banks and enterprises reporting to the survey.

45. We will also improve debt statistics reported by Debt Management Unit by following recommendations from the IMF, including but not limited to 1) increasing DMU's rights to

obtain data from all related entities in a timely and predictable manner; 2) have regular data reconciliation by having meetings with major creditors on debt stock and debt service repayment schedule; 3) ensure DMU's inclusion in all debt related processes; 4) create better institutional setup and debt management frameworks.

H. Program Issues and Monitoring

46. The program will be monitored by quantitative performance criteria, structural benchmarks, indicative targets, and semi-annual reviews (Tables 1, 2, and 3). Performance criteria, indicative targets, and structural benchmarks are defined in the technical memorandum of understanding, which also defines the scope and frequency of data to be reported for program monitoring purposes. We expect that the first review under the program will be completed on or after December 1, 2024 based on the end-September 2024 and other relevant performance criteria; and the second review to be completed on or after June 1, 2025 based on the end-December 2024 and other relevant performance criteria.

Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, Sept. 2024–Jun. 2025

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

	Sept. 2024	Dec. 2024	Jun. 2025
	PC	PC	IT
Performance Criteria¹			
Floor on primary fiscal balance, excluding grants ^{2,3}	10.0	24.0	37.0
Present value of new public and publicly guaranteed external debt contracted ²	102.0	102.0	124.0
Ceiling on new external arrears of the central government (continuous)	0.0	0.0	0.0
Ceiling on the CBL's operational and capital expenses ^{4,5}	30.4	36.7	17.5
Floor on the change in the CBL's net international reserves ^{4,6}	-12.0	6.0	26.0
Ceiling on CBL's gross direct credit to central government	740.1	740.1	731.8
Indicative Targets			
Floor on total revenue collection of the central government ²	495.0	671.0	380.0
Ceiling on new domestic arrears related to GOL security repayments to banks (continuous)	0.0	0.0	0.0
Floor on social and other priority spending ²	57.0	76.0	38.5
Floor on on-budget capital spending ²	28.0	53.0	34.0
Floor on the share of public wage bill paid in Liberian Dollars (percent of total public wage bill) ⁷	0.25	0.30	0.35
Memorandum Items			
Floor on wage bill of school teachers ²	25.0	33.0	17.5
Floor on wage bill of core and non-core clinical health workers ²	32.0	43.0	21.0

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 2024 and 2025 targets are cumulative from the beginning of the calendar year.

³ 2024 and 2025 floors shall be adjusted for deviations of investment spending, and budget support loans from the baseline (see TMU, ¶12).

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

⁵ These numbers exclude monetary policy costs.

⁶ 2024 and 2025 floors shall be adjusted for (i) deviations of banks' deposits of unfit US\$ banknotes at the CBL from the baseline, and (ii) deviations of the value of unfit US\$ banknotes shipped to the Federal Reserve from the value credited to the CBL's account (see TMU, ¶20).

⁷ This will be monitored on a cash basis only.

Table 2. Liberia: Prior Actions 2024

Prior Actions	Rationale	Status
Adoption of the 2024 supplementary government budget in line with key program parameters, including additional tax revenue measures	Macroeconomic stability and fiscal sustainability require a credible budget to lower the deficit.	Not implemented yet. Expected to be adopted by the Legislature by September 17, 2024.
Revision to the repayment terms of CBL loans provided to the GoL in 2023 to shorten the grace period to 1 year and the maturity to 6 years	Necessary to restore the policy credibility (zero recourse to the central bank financing) and international reserves	Implemented.
Cabinet adopts the PFM regulation, in line with the Fund advice, which will provide regulatory guidance in implementing the PFM Act.	Necessary to improve fiscal discipline and address governance concerns	Implemented.
Issue a circular to immediately suspend salary payments to the 6,387 public sector employees who remain unverified following the 2022 GAC audit, and this suspension will last until these employees confirm their status through biometric identification	Necessary to improve rule of law and create space for more productive expenditure	Implemented.
Hiring of the external auditor (or audit firm) for the independent diagnostics and restatement of LBDI's financials, in order to initiate the audit no later than the program approval date	This audit will prepare the revised financial statements of LBDI and provide guidance in planning timely remediation weaknesses identified.	Implemented.
Launching of an independent legal review of the CBL transactions with two commercial banks (GBLL and SIBLL), to ascertain the legality of the transactions and identify the corrective actions to remedy any governance weaknesses identified in the CBL decision-making process.	Necessary to address the CBL governance concerns	Implemented.

Table 3. Liberia: Structural Benchmarks for the Program Under the ECF Arrangement, First and Second Reviews		
Structural Benchmark	Target Date	Rationale
Domestic Revenue Mobilization		
Government submission to the Legislature of VAT law that is consistent with the Fund advice	Sept. 30, 2024	Support VAT implementation
Public Financial Management and Governance		
Adoption by the MFDP of an action plan to implement the new PFM strategy	Sept. 30, 2024	Strengthen PFM implementation
Strengthening Central Bank Operations and Developing the Financial Sector		
MFDP to finalize a comprehensive survey of all GoL accounts opened at both commercial banks and CBL. The survey should also identify a list of dormant accounts and ineligible accounts (those that are not exempted from TSA according to the 2021 TSA concept note, section 4 on TSA coverage) for closure.	Sept. 30, 2024	Establish TSA.
CBL to reduce the number of fixed-term contractual personnel mostly hired to implement the almost completed currency changeover by 170.	Dec. 31, 2024	Eliminate CBL operating losses to ensure its balance sheet sustainability
CBL should (i) obtain restructuring plans developed by problem banks (LBDI and two other small banks), and (ii) prepare credible resolution plans for these banks in parallel.	March 31, 2025	Enhance financial stability
Eliminate uncollateralized CBL loans to banks.	Sept. 30, 2024	Enhance financial stability.

Table 3. Liberia: Structural Benchmarks for the Program Under the ECF Arrangement, First and Second Reviews (continued)

Structural Benchmark	Target Date	Rationale
Governance		
The CBL Board's adoption of a time-bound action plan, consistent with the Fund advice, for implementation of the recommendations contained in the compliance and forensic audit reports.	Dec. 31, 2024	Support the reforms to address the CBL governance concerns
Establish a workplan and timeline approved by the Cabinet for the implementation of Liberia's multipronged approach to ensure transparency of beneficial ownership of legal persons.	March 31, 2025	Strengthen Governance.
Recurrent Structural Benchmarks		
Enhance reporting practices on foreign exchange withdrawals through compilation of reports on foreign exchange withdrawals from CBL and timely submission of these reports to the CBL Board of Governors (BoG) monthly.	Monthly (Within six weeks after the end of month.)	Enhance internal controls.
Enhance reporting practices on foreign exchange withdrawals through semi-annual external audits on the foreign exchange reserves of CBL.	Semiannually (within eight weeks after the end of each half of the year)	Ensure transparency
In line with the Enterprise Risk Management Policy, submit quarterly compliance reports to the CBL BoG with details of deviations from CBL's policies and procedures, as well as stated regulatory requirements.	Quarterly (from 2024Q1; Within 30 days after the end of quarter.)	Improve compliance with policies and regulations

Table 3. Liberia: Structural Benchmarks for the Program Under the ECF Arrangement, First and Second Reviews (concluded)

Structural Benchmark	Target Date	Rationale
The MFDP to prepare monthly fiscal reports and cash plans on a rolling basis. The cash plans will set allotments and commitment ceilings for spending agencies, based on revenue collections. These reports will be shared with IMF staff.	Monthly related to the preceding month (from June 2024). Fiscal report by the 15th and the cash plan by the 30 th or the last day of the month.	Strengthen budget execution.
Expand and update, at least semi-annually, the existing domestic tax and customs duties exemptions database. A comprehensive report should be included in government budget document as an annex.	Semi-annually	Enhance tax exemption management

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 LRD 1.33/US\$ and cross rates as reported in the IMF's International Financial Statistics as of July 31, 2024 and reproduced below in Text Table 1.

Currency	Currency Units Per SDR	Liberian Dollars Per Currency Unit	US Dollars Per Currency Unit
US dollars	1.33	195.37	1.00
British Pound Sterling	1.03	250.89	1.28
Japanese Yen	202.45	1.28	0.01
Euro	1.23	211.55	1.08
SDR	1.00	259.54	1.33

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 (MFDP). 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), 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, which 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. 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.

9. Non-concessional public external debt is external debt (as defined in paragraph 7) that does not meet the definition of concessional defined in paragraph 8. External debt and its concessional status 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.

10. Program performance will be assessed against the quantitative performance criteria on:

- Primary fiscal balance excluding grants (floor),
- New arrears on public external debt (ceiling),
- Present value of new public and publicly guaranteed external debt contracted (ceiling),
- 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

11. A floor applies to the cumulative flow of the primary fiscal balance excluding grants since the beginning of the fiscal year, which runs from January to December. 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 (voucher) 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 (loans) provided by multilateral and bilateral development partners.

12. Adjustor: If the sum of cumulative budget support grants and concessional budget support loans received up to the relevant quarter in the fiscal year exceeds the amounts stated in Text 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. 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 2024 and 2025 floors shall be adjusted up by the sum of shortfalls in on-budget capital spending (as defined in paragraph 29). This adjustor shall not be negative and be capped at US\$44 million for 2024 and US\$69 million for 2025. Shortfalls are relative to reference values shown as in Text Table 2.

Text Table 2. Liberia: Adjustor to the Primary Balance Excluding Grants, 2024Q3-2025Q2			
(Millions of U.S. dollars, Cumulative)			
	2024Q3	2024Q4	2025Q2
Budget support loans	0.0	40.0	0.0
On-budget Capital Spending	28.0	53.0	34.0

New Arrears on Public External Debt

13. 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.

Present Value of New Public and Publicly Guaranteed External Debt Contracted

14. A ceiling applies to the cumulative 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 “PV Tool” based on the amount of the loan, projected disbursements, the maturity, grace period, payment schedule, and fees. For debts with a grant element equal to or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248- (13/97). The PV of external debts in currencies other than the U.S. dollar will be calculated in U.S. dollar terms at program exchange rates as specified in TMU Text Table 1. For the purpose of this performance criterion, the ceiling on the cumulative PV of new contracted or guaranteed external debt excludes debt contracted from the IMF. The MFDP will immediately report to the IMF staff details on any new external loans contracted or guarantees issued.

CBL’s Operational and Capital Expenditure

15. 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.

CBL’s Net International Reserves

16. 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 (Text Table 1). Other currencies are valued at cross rates against the U.S. dollar using the program exchange rates (Text Table 1).

17. Gross official reserve assets of the CBL include the following: (i) monetary gold holdings; (ii) holdings of SDRs in the IMF SDR Department; (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. For the purpose of the program and in the context of Liberia's dual currency system, foreign currency includes US dollars.

18. 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.

19. 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).

20. 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 baseline projections in Text Table 3.

Text Table 3. Liberia: Adjustor to the Floor on NIR, September 2024 – June 2025 (Millions of U.S. dollars)			
	2024Q3	2024Q4	2025Q2
Deposits of unfit US\$ banknotes by banks*	14.5	16.0	3.0
*Cumulative from beginning of year.			

21. 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

22. 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.

Indicative Targets

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

- Total revenue collection of the budgetary central government (floor),
- New domestic debt service arrears/payables of the budgetary central government (ceiling),
- Social and other priority spending (floor),
- Share of central government wage bill paid in LRD (LRD share in GoL compensation payments) (floor),
- On-budget investment spending (floor), and

Total Revenue Collection of the Budgetary Central Government

24. 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 Debt Service Arrears/Payables of the Budgetary Central Government

25. A ceiling applies on new domestic arrears of one type 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 type of government expenditure will be considered to be in arrears under the circumstances set forth below:

- *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

26. Social spending is defined as education and health. Education and health spending consist of the cumulative payments up to the relevant quarter and/or semiannually in the fiscal

year of the units listed in Text Table 4 (payment vouchers approved by the Ministry of Finance and Development Planning).

Text Table 4. 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).
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

27. 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 60 percent of the transfers to the Road Fund¹. It also excludes off-budget projects related to donor projects. The indicative target is based on the annual gross investment. The target shall be assessed using cumulative spending up to the relevant quarter in the fiscal year.

Share of Central Government Wage Bill Paid in LRD (LRD Share in GoL Compensation Payments)

28. A floor applies to the share of central government wage bill (as a percent of total central government wage bill) paid in Liberian dollars to support the authorities' effort to de-dollarize the economy. For the program purpose, this indicative target is based on the quarterly central government gross wage spending (compensation of employees) on cash basis. The central government gross wage bill is measured in U.S. dollars, with all Liberian dollar wage bill converted at the monthly period-average exchange rate. This share is provided by the authorities through the monthly fiscal monitor report.

D. Data Reporting

29. 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 1-3, below, to the staff of the IMF.

¹ See An Act To Establish A National Road Fund For Road Maintenance in The Republic of Liberia (2016), paragraph 6.1 (d).

30. 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.

31. 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.

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

Table 1. 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, prior actions, and structural benchmarks specified in Tables 1-3 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 1. 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 1. 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 2).	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 3).	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, ODCs' overdraft position at the CBL in foreign currency and overdrawn amounts in Government FX accounts at the CBL.	Weekly	Within five days after the end of the week

Table 1. 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 1. 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 2. 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 3. 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							



LIBERIA

REQUEST FOR A 40-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

September 13, 2024

Approved By
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Prepared by the International Monetary Fund and the International Development Association.¹

Liberia: Joint Bank-Fund Debt Sustainability Analysis²	
Risk of external debt distress	<i>Moderate</i>
Overall risk of debt distress	<i>High</i>
Granularity in the risk rating	<i>Limited space to absorb shocks</i>
Application of judgment	<i>No</i>

This DSA is prepared jointly by the staff of the IMF and the World Bank, in collaboration with the authorities of Liberia. The Debt Sustainability Analysis assesses Liberia at moderate risk of external debt distress and at high debt distress risk for total public debt with limited space to absorb 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. Still, domestic debt is mostly denominated in U.S. dollars posing further vulnerabilities. Liberia is front-loading the contracting of debt from development partners. In the baseline projections, the distress risk rating for total public debt improves to moderate in 2030 and remains moderate for external debt throughout. The projections are predicated on prudent fiscal policies: largely avoiding non-concessional external borrowing in the nearer term; reducing the fiscal deficit from 7.1 percent of GDP in 2023 to an average of 2.6 percent of GDP during 2024-29; and continuously consolidating thereafter to stabilize the PV of total public debt as necessary investment is increasingly financed on non-concessional terms in the face of reduced donor financing. Negative shocks to economic growth, and a possible relapse of fiscal indiscipline are downside risks.

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

²Liberia's debt-carrying capacity as determined by the Composite Indicator (CI) is assessed as weak. At 2.51 the CI score based on the October 2024 WEO data and the 2022 Country Policy and Institutional Assessment (CPIA) points to weak ranking. 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

Text Table 1 Liberia: 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

1 The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
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%.

- The external and the domestic debt of the central government is fully covered in the DSA. The external debt in 2023 includes US\$1,473.6 million debt to multilateral lenders, US\$115 million debt to official bilateral lenders, and US\$37.9 million debt to commercial lenders. The domestic debt mostly consists of US\$619.5 million in government borrowing from the CBL and US\$200.6 million in sovereign bonds held by commercial banks as at end-2023. The US\$619.5 million debt from the CBL largely reflects legacy debt that was restructured, securitized, and fully recognized in 2019.⁴ Of the US\$200.6 million debt with banks, local currency debt accounts for about a quarter.
- The State-Owned Enterprise (SOE) debt is generally 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 given the lack to market access. However, there could be SOE debt owed to domestic banks that escapes the DSA. The government is making efforts to improve SOE debt transparency: their annual and quarterly Debt Management Reports include detailed information on SOE debt,⁵ guaranteed and non-guaranteed, direct and on-lent.

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

⁴The stock of GoL domestic debt due to the CBL has increased by nearly half between end-2021 and end-2023 following the CBL on-lending of SDR resources in 2022-23 and CBL direct lending to the government in 2023.

⁵In May 2024, the Government published its Annual Public Debt Management Report, with coverage of detailed debt data (on-lent, guaranteed and non-guaranteed) reported by 15 SOEs representing 65.8 percent of SOE contingent liabilities by end June 2023. The SOE external liabilities guaranteed by the government are all included in the total public and publicly guaranteed debt. The report includes the information on issuance dates, maturity

(continued)

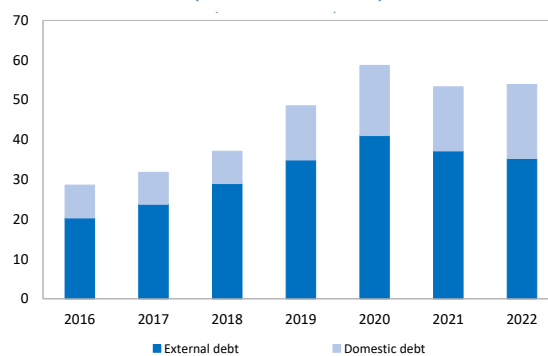
- The CBL debt is all external and is included in the DSA. The IMF credit to the CBL, amounting to US\$228.3 million at end-2023, a decline compared to US\$278.3 million at end-2021 largely due to the U.S. dollar appreciation, is recorded as external debt, whether on-lent to the government or not. On-lent 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 escapes the DSA. The amounts involved are deemed to be small.⁶

BACKGROUND

2. This DSA is being conducted in the context of the request for a forty-month arrangement under the ECF. The last Low-Income Country DSA (LIC-DSF) was considered by the Executive Board in August 2022 as part of the 2022 Article IV and the completion of the fourth review of the ECF arrangement.⁷ Liberia continues to be subject to the IDA Sustainable Development Finance Policy (SDFP).

3. In 2023, total public debt reached US\$2,582 million (58.8 percent of GDP), up from US\$1,869 million (53.3 percent of GDP) in 2021. In present value terms, the public debt to GDP ratio reached 41.6 percent in 2023, providing a notably higher starting point than the 36.7 percent in the previous DSA. Domestic borrowing accounted for most of the expansion in public debt due to a sharp increase in CBL lending to the government, including the on-lending of the proceeds from the exchange of SDRs for freely usable currency, coupled with a substantial increase in

Text Figure 1. Liberia: Stock of Public Debt, 2016-22
(Percent of GDP)



Sources: Liberian authorities and IMF staff calculations.

dates, interest rates, issuance currency, disbursed amounts, repaid principals, and current stocks for loans contracted with commercial banks and on-lent debt. These upgrades were supported by the World Bank.

⁶The 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 MFD 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.

⁷This 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. 22/296, September 14, 2022.

domestic commercial bank lending. Debt has accumulated rapidly after the completion of the HIPC/MDRI 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, mainly monies owed by the government to the CBL.

4. During 2019-23, the years of the COVID-19 pandemic and heightened food insecurity, Liberia's external debt stock increased sharply, notwithstanding substantial non-debt-

creating international support. External debt rose by over 50 percent from US\$1,075 million to US\$1,627 million between December 2019 and December 2023. This includes US\$228.3 million in borrowing from the IMF under the ECF arrangement and the RCF disbursement. Indebtedness to other multilateral lenders increased by US\$543 million, with the World Bank accounting for US\$386 million. Much of the other support from the international community did not create debt, notably relief of US\$65 million under the IMF's CCRT,⁸ US\$353 million in general SDR allocation to Liberia, and US\$55 million in grants from the World Bank. Because of strong nominal GDP growth and valuation effects from the appreciation of the Liberian dollar, the ratio of external debt to GDP rose much less during 2019-2023, increasing from 34.9 percent of GDP to 37.1 percent of GDP, with a peak of 41.1 percent of GDP in 2020 during the COVID-19 pandemic. Still, external debt as a share of GDP at end-2023 was lower in present value terms (21.0 vs. 23.7 percent) than

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

	DRS Data ^{1,2}	DSA Data	Difference ³
	2021 (million USD)	2021 (million USD)	
External Debt	1,846	1,305	541
Bilateral	152	113	39
China	59	54	4
India	1	1	0
Kuwait	20	21	0
Saudi Arabia	37	37	0
Other	35	0	35
Multilateral	1,694	1,191	502
African Dev. Fund	162	194	-32
IDA	616	607	9
IMF	799	278	521
Intl Fund Arg (IFAD)	25	23	2
OPEC Fund for Intl Development	12	13	-1
European Invest Bank	52	46	6
BADEA /ABEDA	26	27	0
ECOWAS / CEDEAO	2	2	0
African Export-Import Bank	-	2	-2

1/2021 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 allocations of 2009 and 2021 in debt to IMF.

projected in the previous DSA. Text Table 2 compares external debt stock at end-2021 in the DSA with the World Bank's Debt Reporting System (DRS) data. The main source of difference between the two datasets is the treatment of debt to the IMF. The DRS includes the SDR allocations of 2009 and 2021 as external debt, whereas the DSA does not.

5. The stock of domestic debt increased by 27 percent in 2023 reflecting a sharp deterioration in government finances. Domestic debt increased by US\$203 million in 2023 largely reflecting government borrowing from the CBL and an increase in government debt to non-financial institutions. In 2023, the CBL provided direct credit to the government (US\$83 million) in light of

⁸The DSA and macro-framework assume CCRT debt service relief through April 2022.

deteriorating revenues and spending pressures. CBL on-lending of SDRs to the government further increased domestic debt by US\$40 million in 2023. Domestic debt due to non-financial institutions increased by US\$81 million, reflecting an increase in government debt due to the National Social Security and Welfare Corporation (NASSCORP) and recognition of government liabilities to domestic suppliers. The increase in domestic debt was mitigated by servicing around US\$23 million of existing domestic debt, while a significant share of government debt with commercial banks maturing in 2023 was rolled over.

Text Table 3. Liberia: Decomposition of Public Debt and Debt Service by Creditor, 2020-23¹

	Debt Stock (end of period)						Debt Service															
	2021			2023			2020				2021				2022				2023			
	million USD	Percent total debt	Percent GDP	million USD	Percent total debt	Percent GDP	million USD				Percent GDP											
Total	1869.5	100.0	53.3	2582.0	100.0	58.8	81.2	120.2	177.9	254.4	2.7	3.4	4.5	5.8								
External	1304.9	69.8	37.2	1626.9	63.0	37.1	49.2	56.9	67.5	76.3	1.6	1.6	1.7	1.7								
Multilateral creditors ³	1191.7	63.7	34.0	1504.6	58.3	34.3	52.1	51.3	65.6	72.2	1.7	1.5	1.7	1.6								
IMF	278.3	14.9	7.9	228.3	8.8	5.2	32.8	32.4	37.1	38.5	1.1	0.9	1.0	1.0								
World Bank	606.9	32.5	17.3	853.6	33.1	19.4	4.5	7.6	13.6	18.6	0.1	0.2	0.4	0.5								
ADB/AfDB/IADB	193.9	10.4	5.5	249.2	9.7	5.7																
Other Multilaterals	112.5	6.0	3.2	173.5	6.7	4.0																
o/w: European Investment Bank	45.6	2.4	0.8	39.0	1.5	0.7																
o/w: Arab Bank for Economic Development in Afric:	26.7	1.4	1.3	32.0	1.2	0.9																
list of additional large creditors ²		0.0	0.0		0.0	0.0																
Bilateral Creditors	111.9	6.0	3.2	115.0	4.5	2.6	2.7	1.8	2.5	3.0	0.1	0.1	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	111.9	6.0	3.2	115.0	4.5	2.6	2.7	2.3	4.0	4.1	0.1	0.1	0.1	0.1								
o/w: Saudia Arabia	36.9	2.0	1.1	40.2	1.6	0.9																
o/w: Kuwait	20.5	1.1	0.6	20.3	0.8	0.5																
o/w: China EXIM	49.5	2.6	1.4	49.5	1.9	1.1																
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	1.4	0.1	0.0	6.9	0.3	0.2	1.1	0.6	1.0	0.1	0.0	0.0	0.0	0.0								
o/w: India EXIM	1.4	0.1	0.0	0.0	0.0	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	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	564.6	30.2	16.1	955.1	37.0	21.8	32.0	63.3	110.4	178.1	1.1	1.8	2.8	4.1								
Held by residents, total	564.6	30.2	16.1	955.1	37.0	21.8	32.0	63.3	110.4	178.1	1.1	1.8	2.8	4.1								
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	51.6	2.8	1.5	39.9	1.5	0.9	2.0	24.0	61.0	126.5	0.1	0.7	1.5	2.9								
Bonds	430.8	23.0	12.3	649.5	25.2	14.8	23.2	26.5	27.7	32.2	0.8	0.8	0.7	0.7								
Loans	70.1	3.8	2.0	135.0	5.2	3.1	6.8	12.8	21.7	19.4	0.2	0.4	0.5	0.4								
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	3508.9			4390.5																		

¹As reported by Country authorities according to their classification of creditors, including by official and commercial (except for Afreximbank which is classified as commercial to be consistent with the DSA classification). Debt coverage is the same as the DSA.

²Individual 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)

⁴Debt 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.

⁵Includes 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).

6. At end-2023, nearly two thirds 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-2023, the outstanding stock of debt to the World Bank and the IMF accounted for 33.1 and 8.8 percent of total public debt, respectively. Liberia's domestic debt is all held by residents with the CBL the largest among them, holding 24.0 percent of total public debt. At the same time most of the

domestic debt is denominated in U.S. dollars, reflecting Liberia's high degree of dollarization, and pointing towards higher vulnerabilities due to foreign exchange exposures. Total debt service in 2023 reached US\$254.4 million of which about 30 percent is external. With the recent expansion of domestic debt, the share of domestic debt service in total debt service rose to about 70 percent in 2023.

MACROECONOMIC ASSUMPTIONS

7. Macroeconomic assumptions are consistent with the projections in the staff report and in line with recent economic developments and the government's policy commitments.

The DSA assumes that the government will return to prudent fiscal policies, by adopting in 2024 revenue measures and a supplementary budget, as well as by pushing its structural reform agenda forward. On this basis, the key macroeconomic parameters are assumed to evolve as follows (Text Table 4):

	2022	2023	2024	2025	2026	2027-41
Real GDP Growth Rate						Average
2022 DSA	3.7	4.7	5.7	5.7	5.5	5.1
Current	4.8	4.6	5.1	5.8	5.9	5.1
Real GDP Growth Rate per Capita						Average
2022 DSA	1.3	2.2	3.2	3.3	3.1	2.9
Current	2.3	2.1	2.6	3.4	3.5	2.9
Current Account Balance						Average
2022 DSA	-16.0	-15.3	-15.1	-14.9	-14.8	-13.4
Current	-19.0	-26.4	-22.6	-22.0	-21.3	-18.9
Growth Rate of Exports of Goods and Services						Average
2022 DSA	7.9	3.0	8.1	6.5	5.6	5.6
Current	13.0	8.6	19.5	9.6	6.7	5.9
Inflation						Average
2022 DSA	7.8	8.7	5.2	5.0	5.0	5.0
Current	9.2	10.0	6.6	5.7	5.0	4.7
Primary Fiscal Balance						Average
2022 DSA	-4.0	-2.4	-2.6	-2.8	-2.8	-2.2
Current	-4.4	-6.1	-1.5	-2.4	-1.2	-1.4

Sources: Liberian authorities; and IMF staff projections.

- **Recent and medium-term real GDP growth** remains quite strong. Following a strong recovery with real GDP growth of 5 percent in 2021, economic activity further expanded by 4.8 and 4.6 percent in 2022 and 2023, respectively, reflecting a thriving gold sector, fiscal expansion, and a boost to domestic production from improved electricity supply. In 2024, the economy is expected to pick up to 5.1 percent, largely supported by strong growth in mining activities and a recovery in the agriculture sector. Projections for the medium-term growth rates have increased somewhat from the last DSA. This reflects a significant iron ore mining investment project led by established foreign-owned companies. One such company plans to invest an amount equivalent to over a quarter of the country's GDP over a period 2023-26, aiming to increase production fivefold and transform its mine into one of the largest in Sub-

Saharan Africa. The project includes the construction of a high-grade iron ore processing plant and significant infrastructure development, such as road expansion and upgrades to existing railway and port facilities. Additionally, the economic outlook relies on continued growth in the gold sector, more substantial infrastructure investment from development partners—including a major investment in electricity generation—and accelerated reforms in the state electricity company. To account for potential delays in implementation, the projections take a conservative approach in factoring these developments into the growth outlook, as well as prospects for exports and fiscal revenues.

- **Long term real GDP growth** (2027-44) is projected at 5.1 percent. IMF staff analysis indicates that Liberia’s potential growth is closer to 5.5 percent.⁹ Growth will be driven by rapid expansion in the labor force, the continued accumulation of physical capital, and productivity gains, which the new government’s reform agenda targets and the IMF’s and the World Bank’s engagements support. The new government’s growth agenda emphasizes the vital role of education in shaping Liberia’s long-term development. Development partners are expected to continue supporting the authorities in education and health projects to strengthen the country’s human capital and overall outcomes. The stock of capital is growing from a low base, so investment will bring high productivity gains, including in transport, energy, and telecommunication. The new government structural reform agenda and improved macroeconomic management should foster private sector development and further support productivity growth. The large-scale mining and infrastructure projects will support growth well beyond the medium term, especially through private sector development that they should spurn. Failure to raise recently low productivity growth back to the post-civil-war average is the main risk to the growth outlook. This could happen if reforms to raise education levels and hence the quality of the country’s labor force, improve the efficiency of public investment, and strengthen the business environment faltered. Climate-related setbacks are another risk.
- The **current account (CA) deficit, including grants**, has hovered around 18-20 percent of GDP in the last few years but increased sharply in 2023 on the back of election-related fiscal expansion, mining investments, and expanding electricity imports. The current account deficit is expected to decline in the near term on the back of expected fiscal adjustment and somewhat improving terms of trade, despite higher electricity imports,¹⁰ a related expansion in production serving domestic markets, and stronger import-intensive mining investments remaining strong headwinds. In the medium term and beyond, the current account will be supported by gradually expanded production and export capacity once investment activities

⁹See Selected Issues Paper “Liberia’s Growth Potential and How to Get There.”

¹⁰In the short to medium term, Liberia is expected to continue supplementing its domestic electricity supply with imports to enhance reliability and meet rising demand. However, over time, reforms within the state electricity company, coupled with investments in domestic power generation, are anticipated to bolster local supply, gradually reducing reliance on imports. Currently, the World Bank is assisting authorities in implementing reforms in distribution companies to minimize technical and commercial losses and expand overall access. Simultaneously, the Bank is also supporting efforts in electricity generation and solarization projects.

come to fruition. However, the expansion of mining exports will ultimately be counterbalanced by an unfavorable long-term trend of the terms of trade and depleting resources in some sectors. 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 financed by foreign direct investment (FDI) flows and declining project grants (recorded in the capital account), as well as concessional loans provided by IFIs and bilateral donors.

- In 2022-23, **exports of goods and services** were significantly stronger than projected in the last DSA because of higher prices and expanded production of some exported commodities, such as gold. Upcoming waves of investment in the mining sector explain more favorable prospects for export growth. Imports of goods and services in 2022 remained close to 55 percent of GDP, as in the last DSA, though increased sharply in 2023, driven by electricity imports, mining investment, and fiscal expansion, and are expected to remain elevated in the medium term corresponding to the upcoming investment plans.
- **Inflation** increased marginally from 9.2 percent in 2022 to 10.0 percent in end-2023, due to exchange rate depreciation and higher import goods prices. After slowing down to 6.2 percent in mid-2024, inflation is projected to converge to 4.8 percent in 2028-29.
- **The fiscal balance of the government**, excluding off-budget operations (Table 3d of the staff report), **substantially deteriorated in 2022 and 2023** from a balanced position in 2021 to 5.1 percent of GDP deficit in 2023, going beyond what was foreseen in the IMF-supported program. The reasons were largely due to revenue shortfalls (declined from 16.4 percent of GDP in 2021 to 13.4 percent of GDP in 2023), notably on international trade (1.7 percent of GDP reduction), and faltering spending discipline. For instance, goods and services reached 7.1 percent of GDP in 2023 from 5.4 percent of GDP in 2021. This fiscal deficit was financed by rolling over commercial banks financing and CBL budgetary financing (US\$83 million), in addition to the WB budget support and SDR drawdown. Because of financing constraints, the fiscal position needs to improve substantially already in 2024, and more gradually over the medium term. This will be achieved by sharply reducing unproductive spending (e.g., goods and services), namely 4 percentage points of GDP already in 2024. In subsequent years (2025-27), this expenditure reduction will be followed by a reasonable revenue mobilization, to be achieved by adopting VAT, streamlining the large tax expenditures, and adopting a comprehensive taxation framework to negotiate both expiring natural resource concessions or new ones.¹¹ The objective is to bring the revenue ratio to GDP back to 16.4 percent of GDP by 2027. This will allow the authorities to reach a primary surplus of 0.7 percent of GDP already in

¹¹To support the fiscal efforts, the three prior actions under fiscal resilience pillar of the World Bank Development Policy Financing for Liberia focus on enhancing DRM, improving expenditure management and bringing transparency in public procurements. PA1 aims to enhance DRM by implementing regulations for the VAT Act. PA2 seeks to improve efficiency and transparency in PFM by mandating the utilization of critical modules within the IFMIS. Lastly, PA3 targets enhancing transparency and accountability in public procurement by submitting an amendment to the Public Procurement and Concessions Act, requiring the use of the electronic Government Procurement (e-GP) system.

2024 with a gradual increase to 2.5 percent of GDP by 2027, which is needed to stabilize debt ratios. Preliminary data till end-August 2024 indicate that budget outturn so far is in line with the 2024 supplementary budget and program objectives. Total revenues are on target and recurrent expenditures (e.g. subsidies and grants) are running at a slower pace than what is envisaged in the supplementary budget.

- **The fiscal balance, including off-budget operations** (Table 3b of the staff report), largely IFIs loans executed outside the national budget, follows a similar trend.¹² However, there are some differences linked to the external loans provided by IFIs and bilateral donors, which translates in additional capital spending (beyond the on-budget capital spending) and goods and services. On the basis of Table 3b of the staff report, the revenues will follow exactly the same trend described above for table 3d; namely increasing from 13.4 percent of GDP in 2023 to 16.4 percent of GDP in 2027. External grants are expected to gradually decline, as some IFIs have already indicated to replace them with concessional loans. The recurrent expenditures are also expected to decline by 4.4 percent points of GDP, driven by on-budget goods and services (4 percentage points of GDP) and wages (0.7 percent of GDP), only partially compensated by slight increases in subsidies and grants (0.3 percent of GDP). Capital spending is expected to gradually decline in 2024 (0.4 percent of GDP), only due to a projected reduced external loan disbursements compared to 2023, while gradually increasing over the medium-term, by reaching 7.5 percent of GDP, on average. Against this background, the primary deficit is expected to substantially improve from 6.1 in 2023 to 1.5 percent of GDP in 2024 and remaining close to an average 1.5/1 percent of GDP until 2029 and beyond, so that public debt ratios stabilize at prudent levels.
- In end-2021, the IMF's general SDR allocation almost doubled Liberia's hitherto feeble gross **official reserves** to US\$701 million, or the equivalent of 3.9 months of imports. The reserve coverage has since declined to 2.1 months of imports at end-2023, reflecting CBL FX lending to government, revaluation losses due to US\$ strengthening against the SDR (the largest share of Liberia GIR), budgetary use of SDR, and the growth of imports. The authorities are committed to gradually rebuilding reserves to around 3.5 months of imports in the medium run 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 in the medium term. US\$1,345 million in new external borrowing is projected for 2024-28, corresponding to around four-fifth of total new borrowing. Over the medium and long term, concessional financing from multilateral donors is expected to decline substantially, necessitating recourse to external financing on non-concessional terms to

¹²The budget, including off-budget operations, covers both national budget operations plus operations stemming from external grants and loans provided by IFIs and bilateral donors which are not channeled through the national budget (e.g., budget support).

avoid a fall-off in investments that in turn would undermine growth performance.¹³ Consequently, the grant element of new external borrowing is expected to decline from 43.1 percent at its peak in 2025 to 20.3 percent in 2044.

Text Table 5. Liberia: External Borrowing Assumptions
(Millions of USD)

	2024	2025	2026	2027	2028
Total	222	297	279	309	293
Multilateral	187	277	249	271	241
IMF	51	51	51	52	0
IDA	87	181	153	173	186
AfDB	29	24	25	25	26
Other multilaterals	20	20	20	20	29
Bilateral	0	0	0	0	0
<i>of which: Paris Club</i>	0	0	0	0	0
<i>of which: Non Paris Club</i>	0	0	0	0	0
Commercial	34	20	30	38	52

Sources: Liberian authorities; and IMF staff projections.

- Domestic borrowing.** During 2024–28, new domestic borrowing is projected around US\$216 million, accounting for about one-seventh of total new borrowing. The mix between external and domestic borrowing is expected to gradually shift toward domestic borrowing in the medium to long run, as the government develops and deepens its domestic debt market and given that financing provided by development partners is unlikely to keep pace with the expansion of the Liberian economy. Domestic borrowing is projected in the form of short- and medium-term foreign currency denominated bonds, mainly provided by commercial banks and other non-bank financial institutions. Central bank borrowing is generally prohibited by the CBL Act, except for limited amounts under exceptional circumstances (e.g., war, famine, and natural disaster). The domestic financing strategy is also closely aligned with the government’s medium-term debt strategy including efforts to develop domestic financial markets. The development of domestic financial markets through regular issuance of government debt instruments, together with prudent debt management strategy, will also play a key role in providing a stable source of funding for public financing needs. Due to the shorter maturity of these bonds, more frequent roll-overs or further external borrowing would be required. Text Table 6 summarizes the public borrowing plan of Liberia in the short term.

¹³The IDA disbursement projections take into account the Bank’s Development Policy Financing operations.

9. This DSA is further grounded in zero outstanding debt arrears. Since end-2022 the GoL started building up domestic debt arrears and in the first half of 2023 also external debt arrears. At their peak in Q3 of 2023, both domestic and external arrears were widespread, covering multiple institutions and instruments and reaching around 2 and 0.25 percent of GDP, respectively. At the time of publishing this joint Bank-Fund DSA, and in the context of the current request for a four-year arrangement under the ECF, the GoL has cleared all outstanding debt obligations while taking measures to avoid reoccurrence or debt arrears in the future. These past arrears therefore do not have bearing on the debt distress risk assessment in the current DSA.

Text Table 6. Liberia: Summary of Public Borrowing Plan
(In millions USD)

	2024	2025	2026
Gross financing needs ¹	228	388	333
Financing sources	228	388	333
External ²	222	297	279
Concessional	147	235	218
Budget financing	40	40	40
Project financing	107	195	178
Non-concessional	75	67	77
Domestic	15	116	71
Other sources	-9	-24	-17

¹ Gross financing needs presented in this table are consistent with the DSA and macro framework for the request for a new ECF arrangement.

² All the external borrowings are long-term.

Sources: Liberian authorities; and IMF staff projections.

REALISM OF THE BASELINE ASSUMPTIONS

10. To support Liberia's growth performance, the current DSA is crucially predicated on safeguarding public capital spending. In the long term, Liberia will face a marked decline in loan commitments by multilateral donors from 2026, which is more pronounced than in the previous DSA. Everything else equal, this would imply large declines in public investment and hence economic growth and development. To avoid this, the current DSA keeps public investment and the overall fiscal balance on average close to the levels projected in the previous DSA (see Text Figure 2). The gaps left by the decline in concessional financing are assumed to be filled for the most part by external commercial financing, which a developed Liberia should gain access to in the long run. The resulting rising share of non-concessional financing will narrow the margin of economic growth over interest rates on Liberia's debt, but it will remain decisively positive, exerting a downward trend on debt ratios.

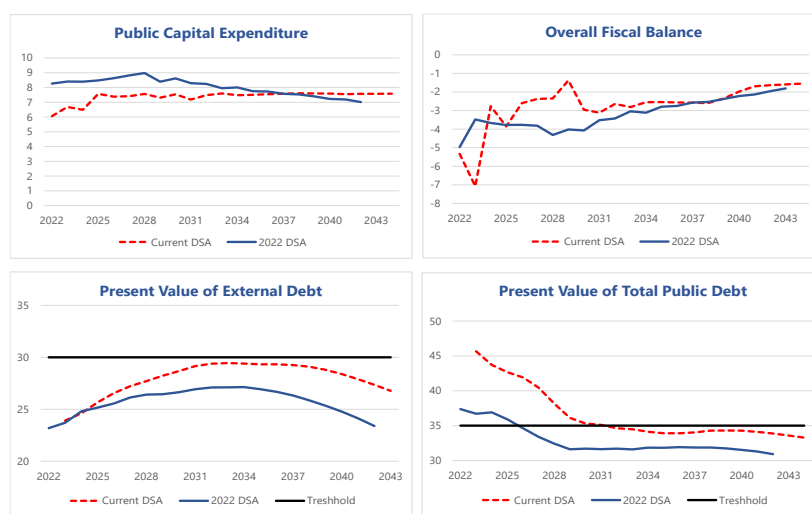
11. A shift away from concessional toward commercial external financing safeguards investment but comes at the expense of higher trajectories of debt in PV terms (see Text Figure 2).

- In the current DSA, external debt relative to GDP rises from its end-2023 level of 37 percent (23.91 in PV terms) to around 43 percent (about 29 in PV terms) in the early 2030s, before gradually declining to 33.3 percent (25.1 in PV terms) by 2043. Compared to the previous DSA where external debt in 2023 was projected at 40.3 percent of GDP (23.7 in PV terms), the current lower nominal starting ratio is mostly explained by lower-than-projected external borrowing and capital investment as well as higher nominal GDP due to elevated inflation.

However, in PV terms the lower nominal starting point is more than offset by higher effective interest rates and debt service costs than projected in the previous DSA. Thereafter, once public investment recovers, in PV terms, debt accumulation is faster, reflecting a shift from concessional to commercial financing to address Liberia's large investment and development needs. Furthermore, while undisbursed amounts from IDA19 are disbursed as 50 percent grants and 50 percent IDA regular credits, disbursements under IDA20 are on highly concessional credit terms only.

- Like in the previous DSA, the fiscal adjustment path has been calibrated to achieve a gently declining trajectory for the total public debt-to-GDP ratio in PV terms. Unlike external debt, total public debt is starting at higher value in 2023 for both nominal and PV terms, with the former starting at 58.8 percent of GDP in the current DSA (55.3 percent of GDP, previously) and the latter starting at 45.7 percent of GDP (36.7 percent of GDP previously) due to increase in borrowing and higher debt service costs than projected in the previous DSA. The rise in the PV of domestic debt in 2023 compared to the previous DSA is even more pronounced than for external debt. This reflects a large unanticipated fiscal deterioration in 2022-23, financed by treasury securities issuance to domestic banks, as well as a rise in global interest rates. While in nominal terms public debt is projected to decline gradually to 42 percent in 2043, in PV terms the decline in the debt ratio is less pronounced, crossing the 35-percent-of-GDP threshold for moderate debt distress risk only in 2032 and stabilizing in the long-run just above 33 percent of GDP. Achieving this debt path requires fiscal consolidation that brings the deficit ratio from 5.6 percent of GDP in 2022 (inclusive of project aid) to 2.5 percent of GDP within a decade and stabilizing at this level thereafter. The shift in the medium- to long-term from concessional to commercial external and domestic debt requires keeping fiscal balances above levels needed to stabilize nominal debt ratios.

Text Figure 2. Liberia: Overall Fiscal Deficit, Capital Expenditure, and Debt 2022-43
(Percent of GDP)



Sources: Authorities' data; and IMF staff calculations.
(* PV stands for present value.)

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

- The CA deficit has been and will remain the main contributor to external debt accumulation while net FDI and to lesser extent real GDP growth will play important mitigating roles (Figure 3). The residual, which has played a mitigating factor in the previous years, 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 five years beyond changes in debt explained by the usual macroeconomic debt-creating forces were about 6.1 and 18.3 percent of GDP, respectively, which are both above the median of the countries using the LIC DSF. Unexpected increases in debt reflect primarily the Ebola epidemic during 2014-15 and the COVID-19 pandemic during 2020-21, followed by a terms-of-trade shock in 2022. The main driver of the unexpected increase in external debt was the current account deficit. 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.

13. Improvement in the primary balance over the next three years is at the upper end when compared with historical data on LIC adjustment programs (Figure 5). The second DSF realism tool assesses the realism of the fiscal projection. Figure 5a highlights that the anticipated adjustment in the primary balance of about 4½ percentage points of GDP is at the upper end when compared to other LIC programs though not unprecedented —about 10 percent of the sample have implemented even larger fiscal adjustments. The growth projections for 2024-25 are somewhat higher compared to the growth paths suggested by the fiscal multiplier realism tool. This reflects (i) generally low fiscal multipliers given Liberia’s small domestic production base; (ii) sharply reduced uncertainties and lower risk premia brought about by fiscal discipline; (iii) catalytic role of program commitments vis-à-vis other multilateral as well as bilateral lenders; (iv) idiosyncratic factors, including gradual acceleration in mining activities. For the long term (2028-44), the primary deficit is projected to average 1.2 percent, falling to about half percent of GDP by end of the projection horizon to stabilize the PV of public debt-to-GDP ratio.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

14. Liberia’s debt-carrying capacity based on the Composite Indicator (CI) is assessed as weak (Text Tables 7 and 8). The CI captures the impact of different factors through a weighted average over 2018-2027 of the World Bank’s CPIA score, the country’s real GDP growth, remittances, international reserves, and world economic growth. Liberia’s debt-carrying capacity based on the CI, which is based on the October 2024 WEO and the average CPIA, is assessed as weak. The CI score is 2.51, compared to 2.72 in the previous DSA. In addition, Liberia remains

assessed as “weak quality of debt monitoring” in line with the country’s debt-recording capacity, although Liberia is improving debt reporting as per the World Bank debt transparency heatmap.

Text Table 7. Liberia: Composite Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.4	3.0	1.1	46%
Real growth rate (in percent)	2.7	4.0	0.1	4%
Import coverage of reserves (in percent)	4.1	20.8	0.8	34%
Import coverage of reserves^2 (in percent)	-4.0	4.3	-0.2	-7%
Remittances (in percent)	2.0	9.7	0.2	8%
World economic growth (in percent)	13.5	2.9	0.4	16%
CI Score			2.51	100%
CI rating			Weak	

Final classification	Classification based on current vintage	Classification based on previous vintage	Classification based on two previous vintages
Weak	Weak 2.51	Weak 2.62	Weak 2.64

Text Table 8. Liberia: Debt Carrying Capacity and Thresholds

EXTERNAL debt burden thresholds	Weak	Medium	Strong	APPLICABLE
PV of debt in % of				EXTERNAL debt burden thresholds
Exports	140	180	240	PV of debt in % of
GDP	30	40	55	Exports
Debt service in % of				GDP
Exports	10	15	21	Debt service in % of
Revenue	14	18	23	Exports
				Revenue
TOTAL public debt burden threshold	Weak	Medium	Strong	
PV of total public debt in percent of GDP	35	55	70	

15. Standard scenarios stress tests and contingent liability tests are conducted and discussed below. The standardized stress tests apply the default settings. The contingent liability stress test is based on the quantification of potential contingent liabilities (including SOE-related risks associated with non-guaranteed SOE debt). In addition, it is tailored to take into account, *inter alia*, contingent liabilities in the form of outstanding payment obligations to the vendors and other payment arrears that could potentially inflate the public debt stock.

EXTERNAL DSA

16. Liberia remains at moderate risk of external debt distress in the baseline scenario.

Under the baseline scenario, all indicators remain below their corresponding thresholds in the medium to long term (Figure 1) although with considerably narrower margins compared to 2022 DSA. Like in the previous DSA, all four indicators show below-threshold ratios supported by the denominator effect. GDP and exports are projected to grow faster than previously envisaged owing to the expected new investments in the iron ore industry. Table 1 indicates that the debt ratio increases at a slower pace and by less than what the current account, FDI, and economic growth suggest, largely explained by a rise in (negative) residual. This may be due to uneven statistical coverage, the sizable project grants that Liberia receives from donors, as well as remittances that may escape official statistics. Still, PV of debt-to-GDP ratio as well as debt service-to-revenue ratio come close to their respective threshold in the second half of the 10-year assessment period. This is reflective of the assumed shifts in the financing mix away from multilateral concessional financing towards external commercial financing.

17. Standard stress tests show that a deterioration of the macroeconomic outlook might lead the present value (PV) of external debt-to-GDP, PV of debt-to-exports ratio and PV of debt service-to-revenue ratio to breach their thresholds (Table 3).

All of the standard stress tests, namely alternative scenarios, a shock to real GDP growth, exports, other capital flows, a combination of all shocks, as well as combined contingent liabilities shock will result in breaching the thresholds of the PV of debt-to-GDP ratio as well as debt service-to-revenue ratio. A shock to exports leads to the PV of debt-to-exports ratio to breach the applicable threshold in the second year of impact.

18. The granularity assessment further suggests that Liberia has limited space to absorb shocks (Figure 4).

While all debt burden indicators remain below their respective thresholds, a combined shock would lead to a breach of PV of debt-to-GDP ratio in 2024 as well as the PV of debt service-to-revenue ratio in 2024 that continue well beyond 2033. This suggests that Liberia has limited space to absorb shocks. The outcome of the granularity assessment has qualitatively not changed compared to that of the last DSA though with some divergence in indicators. In particular, export-related indicators show generally smaller ratios largely because of the better-than-expected nominal GDP and exports in 2022. The upward revision in the projection paths of export-related indicators is also due to a lower nominal external debt to GDP ratio than that in the last DSA. The debt service-to-revenue ratio is notably higher due to a projected shift towards commercial financing.

19. There are significant risks beyond those captured in the standard stress tests. Liberia is contracting an unusually large amount¹⁴ of external debt during 2023–25, from the World Bank, some of it at non-concessional terms. As these loans disburse over time, external debt relative to GDP will rise close to the threshold for high risk in subsequent years. Remaining below it therefore requires much lower

¹⁴Roughly 511 million to be disbursed between 2024–2026 which constitute over 12 percent of 2023 nominal GDP.

contracting external debt going forward. Insufficient fiscal consolidation could seriously undermine the objective to restore and preserve debt sustainability as well as maintain its moderate risk rating on external debt. The limited authorities' implementation capacity and weak institutions represent considerable implementation risks. The expected peaceful political and social environment—the next presidential election will be in 2029—will help mitigate such risks. The authorities should coordinate with the development partners, get an overview of projects under consideration, and prioritize appropriately while remaining within the overall envelope. They should also improve their debt carrying capacity—an upgrade to a “medium” classification would loosen thresholds against which indicators are assessed for DSA risk rating purposes.

PUBLIC DSA

20. Under the expected fiscal consolidation assumptions, the PV of the public debt to GDP ratio will decline from 45.7 percent in 2023 to under 35 percent in 2033 and remain below the 35 percent threshold for the rest of the projection period (Table 2). The PV of public debt to GDP ratio in 2023, projected at 36.7 percent at the time of the previous DSA, turned out to be notably higher at 45.7 percent due to fiscal overruns in 2022-23 and higher than projected debt service costs. In the baseline, the PV of the public debt-to-GDP ratio crosses the 35 percent DSA benchmark in 2032. Automatic debt dynamics remain favorable throughout the forecasting horizon due to largely concessional debt terms, although counterbalanced by Liberia's high development needs. On balance, the PV of public debt-to-GDP ratio is projected to stabilize around 34 percent of GDP, below the DSA threshold (Table 2 and Figure 2). The debt-service-to-revenue and grants ratio is expected to decline from 28.9 percent in 2023, to about 20 percent in the medium term. 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 pressures.

21. Under standard sensitivity analysis scenarios, Liberia is rated at a high risk of public debt distress throughout the next decade. Among the bound tests, a real GDP shock generates the largest breach of the benchmark on the PV of debt-to-GDP ratio, which will remain well above the related benchmark. Shocks to the primary balance, exports, other flows, and a combination of shocks will also lead to a deterioration of the PV of the debt-to-GDP ratio and a breach of the threshold throughout the projection horizon (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 57 percent in 2025 capturing the combined shock of SOE's external debt default, PPPs' distress, and financial market vulnerabilities that are not included in the covered data.

22. There are important risks outside this standard sensitivity analysis. In addition to the risks on external debt contracting discussed above, the medium-term growth projections very much depend on a few large mining projects. Moreover, Liberia's debt servicing record has recently suffered. The government could again incur payment arrears when financing gets tight and violate public financial management regulations, which requires prioritization of debt service

payments. The government should strengthen its public financial management including cash planning to avoid getting cornered by financing difficulties.

RISK RATING AND VULNERABILITIES

23. 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 2023-32, which entails an assessment of high risk of public debt distress. In 2033, this ratio is projected to fall below its indicative threshold, reinsuring that public debt is sustainable. Beyond 2033, based on this model-based signal Liberia would be assessed as being at moderate risk of debt distress.

24. Despite currently high risk of overall debt distress, public debt is assessed as sustainable. Currently more than 90 percent of external debt is on highly concessional terms and held by multilateral lenders, whereas the bulk of domestic debt is owed to the CBL at favorable terms. Although the share of non-concessional debt is set to edge up, considerably limiting room for maneuver, and the interest rate-to-growth differential to narrow in the longer run, the differential will remain strongly negative, thereby exerting strong downward pressure on debt ratios throughout the forecasting horizon. Together with fiscal consolidation that brings the overall deficit from 7.1 percent of GDP in 2023 to below 3 percent of GDP around 2030, the automatic debt dynamics will ensure a gradual and steady decline in the ratio of the PV of public debt to GDP into moderate risk rating territory starting from 2033. Beyond that, public debt projections are predicated on continued gradual fiscal adjustment path that protects public investment while keeping debt in check in the face of rising debt service costs. In the long run once the financing mix settles, these factors will also stabilize the ratio of public debt service to fiscal revenues.

25. The DSA underscores that restoring a prudent fiscal policy and prioritizing borrowing at concessional terms 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 by 2033, it is essential to ensure a prudent and conservative approach in contracting both new domestic (commercial bank financing) and external debt. Ensuring transparency and timely disclosure of new debt contracts is essential in monitoring debt developments. Therefore, debt management capacity should be further enhanced, by developing and following a credible and coherent medium-term debt strategy. The annual debt strategy should include a detailed borrowing plan that can reduce the risks associated with timely debt service and overall debt sustainability.

26. 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. A higher-than-projected global economic slowdown, caused by lower external demand and increased global uncertainties, could have adverse impact on the Liberian economy, primarily through the exports

and international donors' support channels. Deterioration in payment culture and culture of continuous arrears can lead to loss of confidence and tighter financing constraints. To this end, the DSA envisages a rapid return to a more sustainable fiscal position, aimed at reversing the large fiscal expansion in 2022-23 and clearing all outstanding overdue debt obligations. A better fiscal position will play a crucial role in creating the space to mitigate future adverse shocks. Any fiscal slippages in the future could substantially reduce Liberia's borrowing space. Finally, if major climate risks materialize before adaptation measures are in place, economic activity could falter.

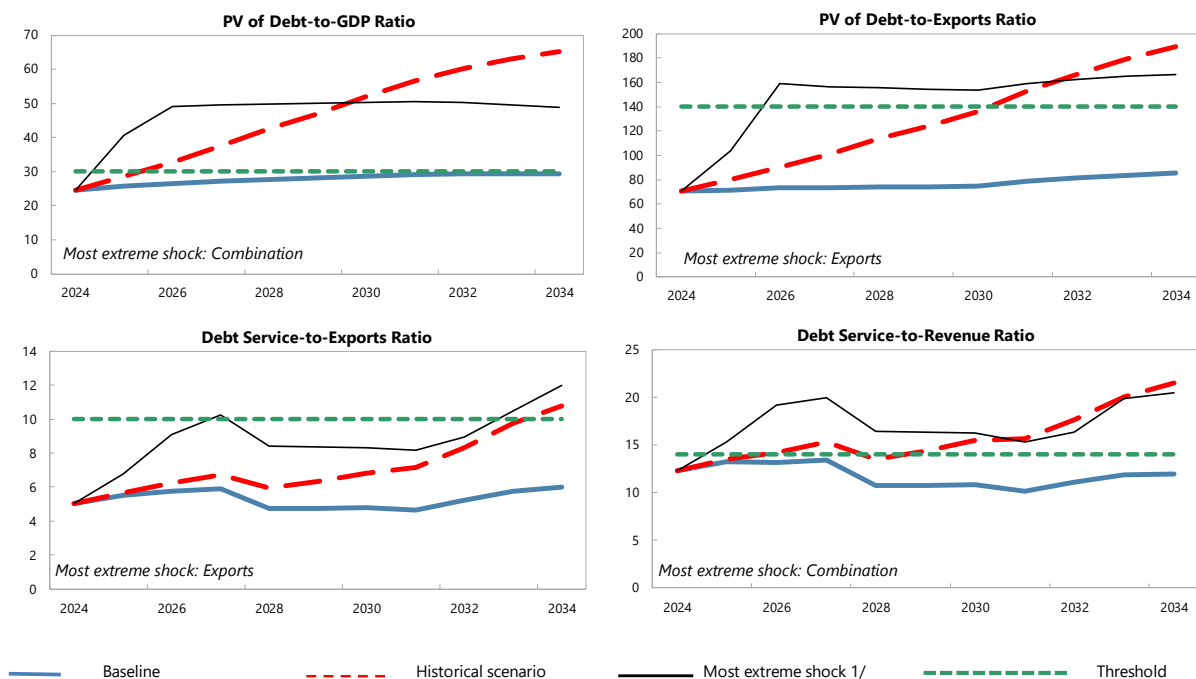
AUTHORITIES' VIEWS

27. The authorities broadly agreed with this DSA and the ratings for debt distress risks. It accurately reflects the level of Liberia's current indebtedness and likely developments going forward. They underscore the fact that domestic public debt consisted mainly of legacy obligations to the CBL was an important mitigating factor. Debt owed to the CBL is within Liberia's public sector and its terms are favorable, with relatively low interest rates and long maturities. The government remains committed to macroeconomic stability and fiscal discipline, which will keep public debt in check.

28. The authorities were wary of the constraints that debt sustainability requirements may place on critical infrastructure investment. Mostly because of the destruction during the long civil wars, Liberia faces large infrastructure gaps that it needs to narrow to achieve its development objectives. At the same time, the authorities are committed to improving the ratings for both external and total public debt from currently high to moderate in the years to come. In order to lessen the trade-offs, the authorities intend to strictly prioritize reliance on concessional external loans and grants for now. They will work with the community of development partners to prioritize projects and space out disbursements optimally. They will also aim to improve their debt carrying capacity, which will require proceeding with ambitious reforms, allowing Liberia to gradually take on more debt without unduly increasing risks.

29. The authorities were hopeful that donor support would drop off less than projected in this DSA in the long run. In the long run, Liberia should have easier access to both external financing at non-concessional terms and domestic financing as capital markets are developing. The government would have to tap them to maintain reasonable levels of public investment. However, were development partners able to maintain concessional financing at higher-than-projected levels for longer, recourse to non-concessional and commercial borrowing could be much lower than currently projected, opening up valuable fiscal space.

Figure 1. Liberia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2024–34



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	n.a.	n.a.

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.

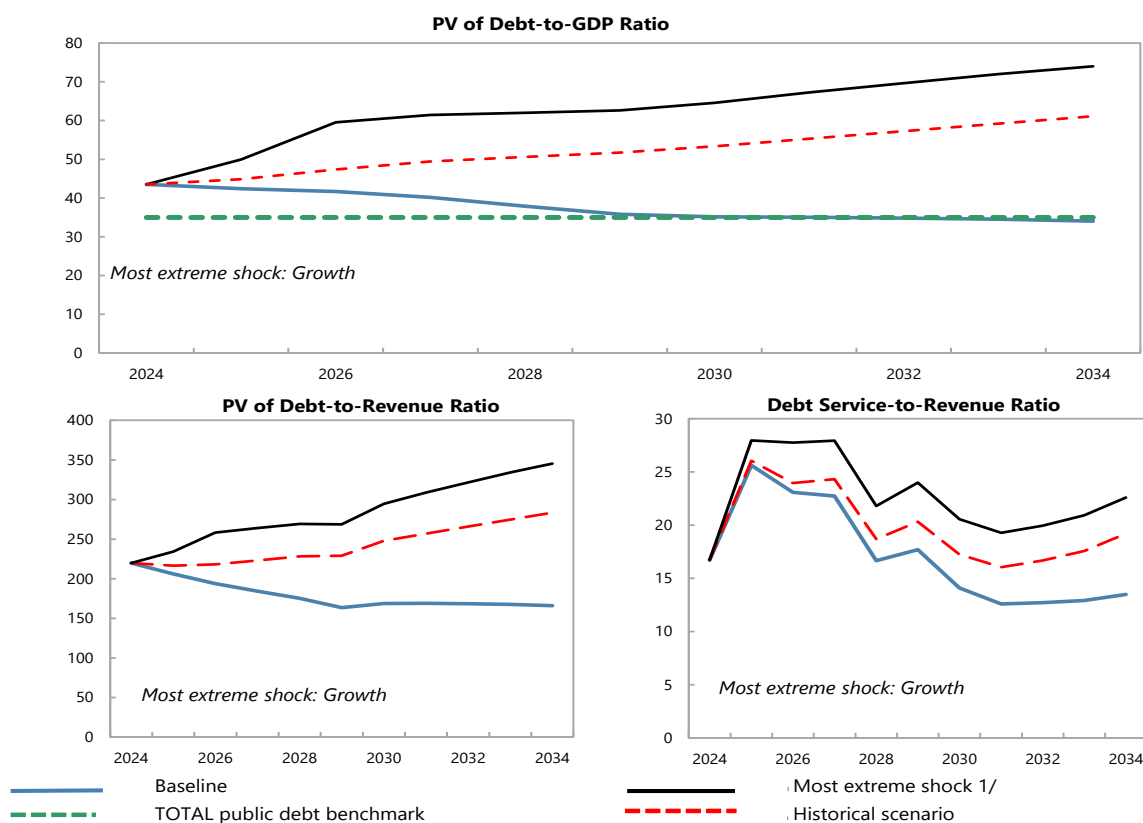
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	30	30
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 2034. 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 extreme 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 department.

Figure 2. Liberia: Indicators of Public Debt Under Alternative Scenarios, 2024–34

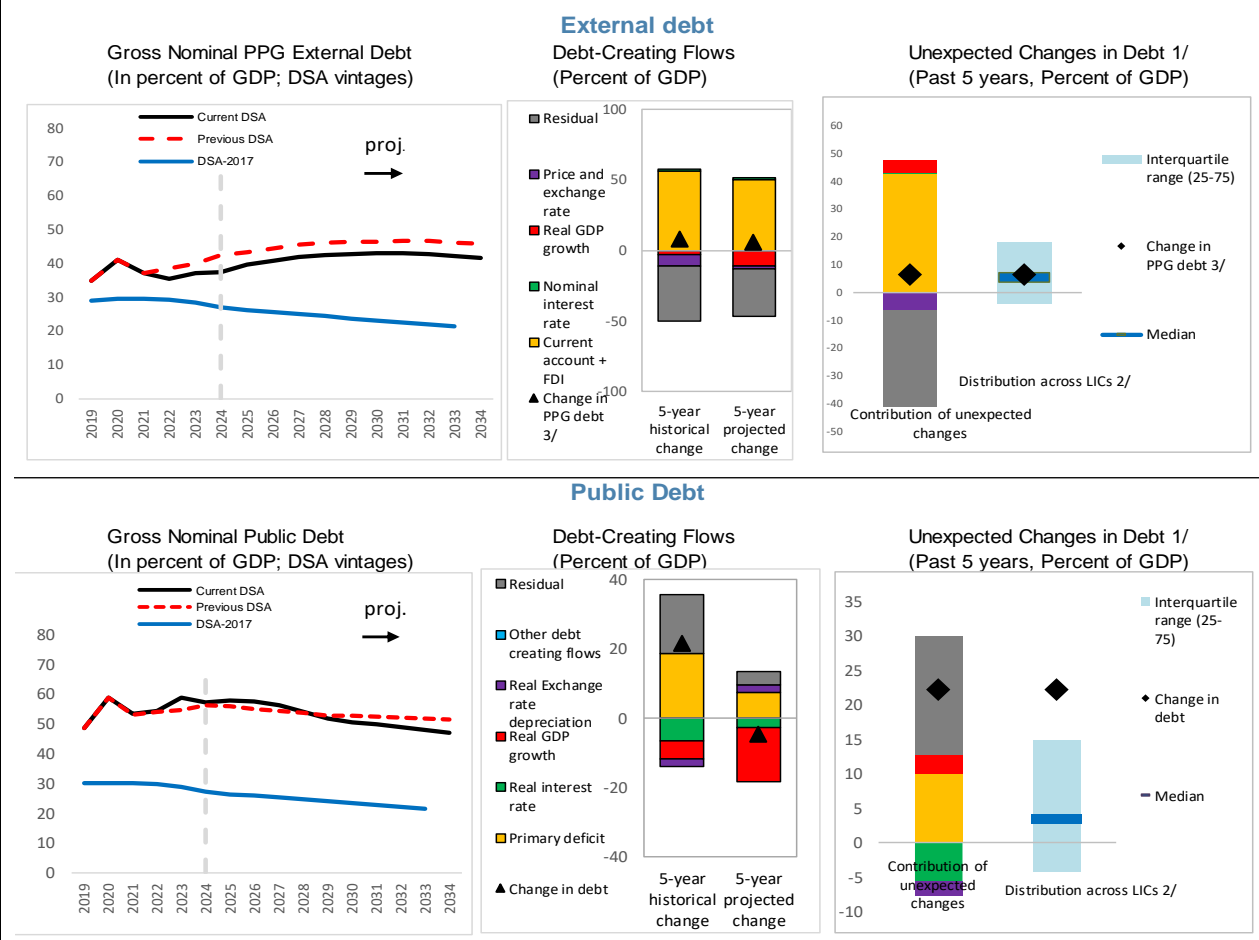
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	93%	93%
Domestic medium and long-term	7%	7%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	6.9%	6.9%
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 projections.

Sources: Country authorities; and staff estimates and projections.

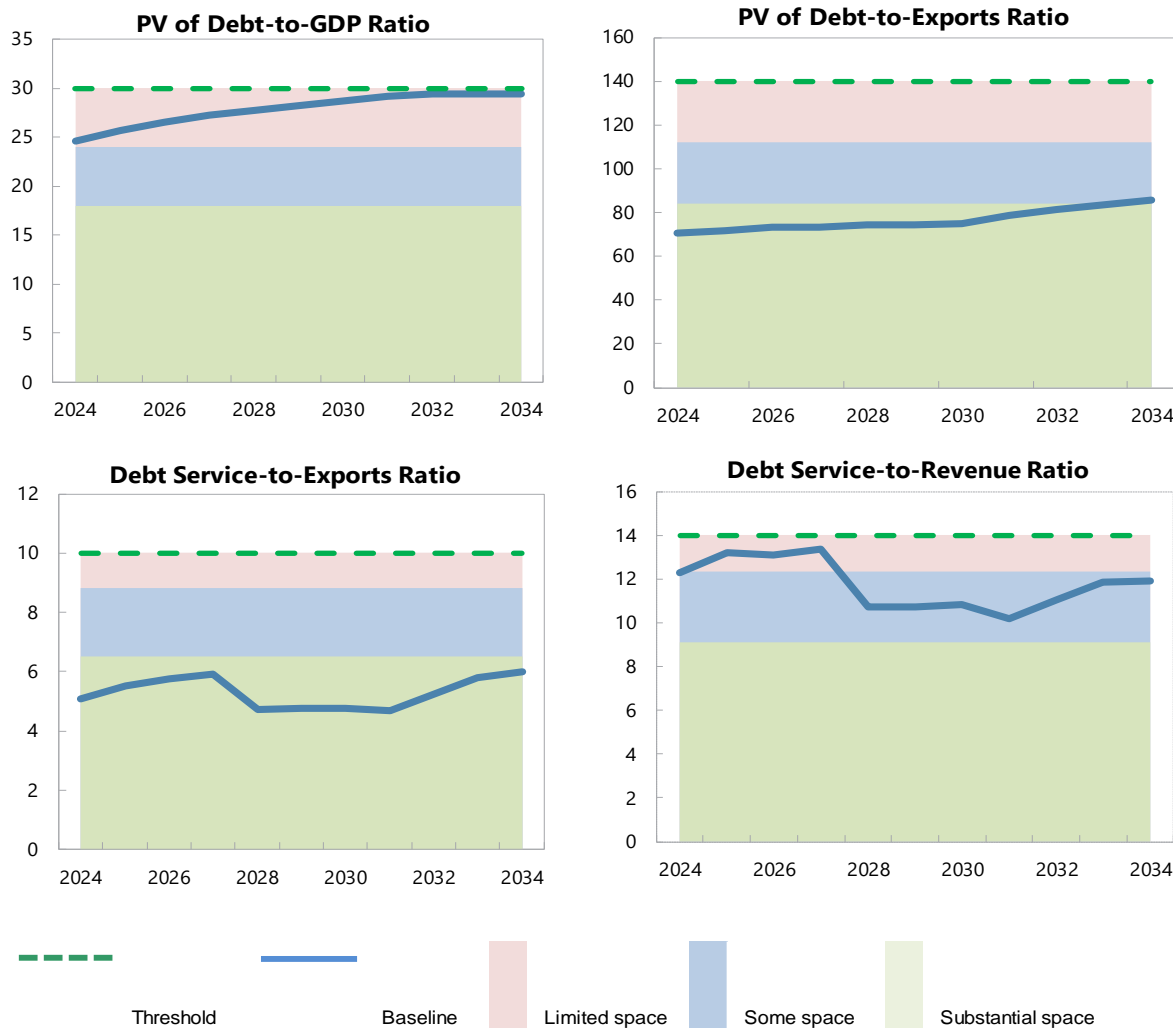
1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock 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, 2024–34^{1/}

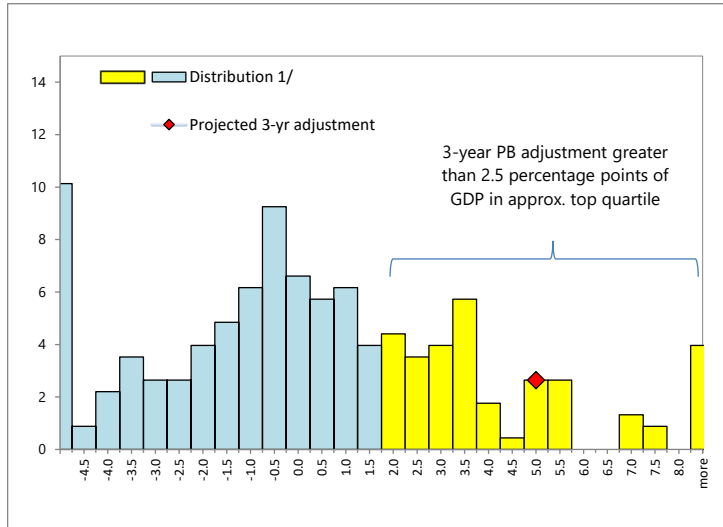


Sources: Country authorities; and staff estimates and projections.

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.

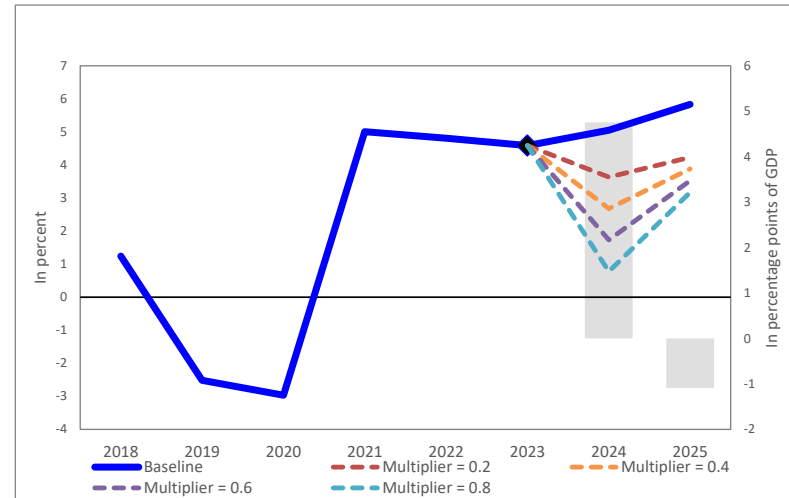
Figure 5. Liberia: Realism Tools

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, 2021–44
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/ Historical Projections	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	37.2	35.4	37.1	37.5	39.6	40.9	41.9	42.4	42.9	41.6	33.7	29.0	41.6
<i>of which: public and publicly guaranteed (PPG)</i>	37.2	35.4	37.1	37.5	39.6	40.9	41.9	42.4	42.9	41.6	33.7	29.0	41.6
Change in external debt	-3.9	-1.8	1.7	0.4	2.1	1.3	1.0	0.5	0.4	-0.6	-1.0		
Identified net debt-creating flows	5.0	7.2	13.3	10.9	8.8	8.3	6.9	6.6	7.0	10.6	16.4	13.0	8.4
Non-interest current account deficit	17.4	18.7	26.1	22.3	21.6	20.9	19.1	18.5	16.0	18.2	22.6	22.6	18.5
Deficit in balance of goods and services	24.5	22.3	30.2	24.8	23.5	22.4	19.6	18.2	15.4	17.8	19.5	36.6	18.6
Exports	32.1	32.0	31.5	34.8	35.9	36.1	37.1	37.4	38.0	34.3	31.0		
Imports	56.7	54.4	61.7	59.5	59.4	58.5	56.7	55.6	53.4	52.1	50.5		
Net current transfers (negative = inflow)	-12.9	-9.6	-10.0	-8.9	-8.7	-8.4	-8.0	-7.4	-7.1	-6.1	-5.2	-18.3	-7.3
<i>of which: official</i>	-5.0	-2.7	-2.7	-2.2	-2.4	-2.3	-2.2	-2.1	-2.0	-1.7	-1.2		
Other current account flows (negative = net inflow)	5.8	6.0	5.9	6.4	6.7	6.9	7.5	7.7	7.7	6.5	8.3	4.3	7.2
Net FDI (negative = inflow)	-7.3	-7.4	-9.8	-10.0	-11.1	-10.9	-10.2	-9.9	-7.2	-6.6	-5.6	-8.6	-8.5
Endogenous debt dynamics 2/	-5.2	-4.0	-3.0	-1.4	-1.7	-1.8	-2.0	-2.0	-1.8	-1.1	-0.7		
Contribution from nominal interest rate	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.5	0.8	0.8		
Contribution from real GDP growth	-1.8	-1.6	-1.5	-1.7	-2.1	-2.2	-2.3	-2.3	-2.4	-1.9	-1.5		
Contribution from price and exchange rate changes	-3.7	-2.8	-1.9	...	...	...	...	...	...	...	...
Residual 3/	-8.9	-9.0	-11.6	-10.5	-6.7	-6.9	-5.9	-6.1	-6.6	-11.2	-17.4	-10.4	-8.0
<i>of which: exceptional financing</i>	-0.9	0.0	0.0	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	...	...	23.9	24.6	25.7	26.6	27.2	27.7	28.2	29.4	26.2		
PV of PPG external debt-to-exports ratio	...	...	75.9	70.8	71.6	73.5	73.4	74.1	74.3	85.6	84.5		
PPG debt service-to-exports ratio	5.0	5.3	5.5	5.1	5.5	5.8	5.9	4.7	4.7	6.0	6.9		
PPG debt service-to-revenue ratio	9.9	11.1	13.0	12.3	13.2	13.1	13.4	10.7	10.7	11.9	12.0		
Gross external financing need (Million of U.S. dollars)	414.0	515.3	792.4	665.7	625.9	648.2	630.7	639.7	691.8	1256.5	3354.0		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.0	4.8	4.6	5.1	5.8	5.9	6.0	6.0	6.0	4.7	4.6	1.2	5.5
GDP deflator in US dollar terms (change in percent)	10.0	8.1	5.6	3.1	0.4	0.0	0.5	1.6	0.1	1.9	1.9	2.7	1.4
Effective interest rate (percent) 4/	0.9	1.0	1.1	1.0	1.1	1.1	0.8	0.9	1.4	1.9	2.6	0.9	1.3
Growth of exports of G&S (US dollar terms, in percent)	39.2	13.0	8.6	19.5	9.6	6.7	9.5	8.5	7.8	4.1	5.9	5.1	7.8
Growth of imports of G&S (US dollar terms, in percent)	23.6	8.7	25.4	4.5	6.0	4.4	3.2	5.7	1.8	6.5	6.2	3.8	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	31.7	43.4	38.9	40.2	40.5	37.1	25.9	20.3	...	34.0
Government revenues (excluding grants, in percent of GDP)	16.4	15.2	13.4	14.3	15.0	15.9	16.4	16.5	16.8	17.2	17.8	14.5	16.4
Aid flows (in Million of US dollars) 5/	503.2	366.5	445.4	340.3	453.6	441.1	469.7	499.3	479.5	426.6	487.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	7.0	8.2	7.6	7.6	7.1	6.7	4.1	2.5	...	6.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	68.7	71.2	70.6	70.1	70.7	72.0	62.6	56.3	...	67.3
Nominal GDP (Million of US dollars)	3,509	3,974	4,390	4,756	5,051	5,351	5,702	6,140	6,512	9,161	17,488		
Nominal dollar GDP growth	15.5	13.3	10.5	8.3	6.2	5.9	6.6	7.7	6.1	6.7	6.6	3.9	6.9
Memorandum items:													
PV of external debt 7/	...	...	23.9	24.6	25.7	26.6	27.2	27.7	28.2	29.4	26.2		
In percent of exports	...	...	75.9	70.8	71.6	73.5	73.4	74.1	74.3	85.6	84.5		
Total external debt service-to-exports ratio	5.0	5.3	5.5	5.1	5.5	5.8	5.9	4.7	4.7	6.0	6.9		
PV of PPG external debt (in Million of US dollars)			1050.0	1170.2	1296.9	1421.1	1552.1	1702.1	1838.2	2693.1	4578.6		
(PVt-PVt-1)/GDPt-1 (in percent)			2.7	2.7	2.5	2.4	2.6	2.2	2.2	1.9	1.1		
Non-interest current account deficit that stabilizes debt ratio	21.3	20.5	24.4	21.9	19.4	19.6	18.1	18.0	15.6	18.8	23.6		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes

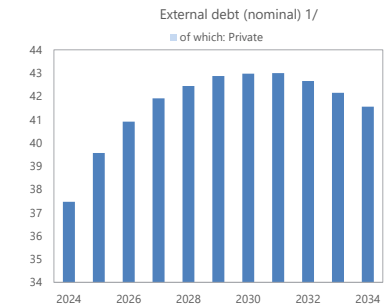
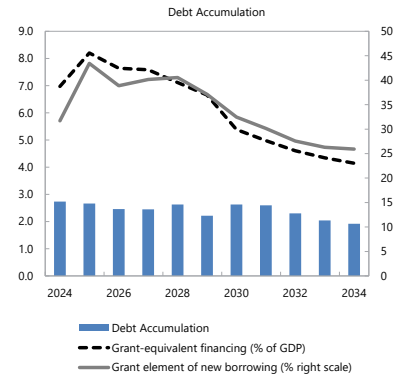


Table 2. Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–44
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	53.3	54.3	58.808	57.155	57.907	57.5	56.3	54.0	51.8	47.0	41.2	42.0	52.6
of which: external debt	37.2	35.4	37.055	37.462	39.565	40.9	41.9	42.4	42.9	41.6	33.7	29.0	41.6
Change in public sector debt	-5.4	1.0	4.5	-1.7	0.8	-0.4	-1.2	-2.3	-2.2	-1.0	-0.7		
Identified debt-creating flows	-5.8	-1.4	1.5	-2.1	-1.1	-2.4	-2.9	-2.4	-2.9	-0.6	-1.0	2.3	-1.6
Primary deficit	1.6	4.4	6.1	1.5	2.4	1.2	1.0	1.2	0.4	1.6	0.64	3.8	1.6
Revenue and grants	27.3	21.6	20.1	19.8	20.6	21.5	21.8	21.6	21.9	20.5	19.9	27.7	21.0
of which: grants	10.9	6.4	6.7	5.5	5.6	5.6	5.4	5.1	5.1	3.3	2.0		
Primary (noninterest) expenditure	28.9	26.0	26.2	21.3	23.0	22.7	22.7	22.9	22.3	22.1	20.5	31.5	22.5
Automatic debt dynamics	-7.4	-5.8	-4.6	-3.6	-3.6	-3.6	-3.8	-3.7	-3.3	-2.2	-1.6		
Contribution from interest rate/growth differential	-4.8	-5.3	-3.6	-3.6	-3.6	-3.6	-3.8	-3.7	-3.3	-2.2	-1.6		
of which: contribution from average real interest rate	-2.0	-2.9	-1.3	-0.8	-0.4	-0.4	-0.5	-0.5	-0.2	0.0	0.2		
of which: contribution from real GDP growth	-2.8	-2.4	-2.4	-2.8	-3.2	-3.2	-3.3	-3.2	-3.0	-2.2	-1.9		
Contribution from real exchange rate depreciation	-2.7	-0.5	-0.9	...	...	...	...	...	...	...	...
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	0.4	2.4	3.0	0.4	1.9	2.0	1.7	0.1	0.7	-0.3	0.2	1.5	0.5
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	45.7	43.7	42.7	41.9	40.4	38.2	36.1	34.1	33.3		
PV of public debt-to-revenue and grants ratio	...	...	227.4	220.8	207.1	195.1	185.6	176.5	164.9	166.3	167.6		
Debt service-to-revenue and grants ratio 3/	12.6	20.7	28.9	16.7	25.7	23.6	22.9	17.2	18.1	13.1	18.1		
Gross financing need 4/	5.1	8.9	11.9	4.8	7.7	6.2	5.9	4.9	4.3	4.2	4.2		
Key macroeconomic and fiscal assumptions													
Nominal GDP (local currency)	3,509	3,974	4,390	4,756	5,051	5,351	5,702	6,140	6,512	9,161	17,488		
Real GDP growth (in percent)	5.0	4.8	4.6	5.1	5.8	5.9	6.0	6.0	6.0	4.7	4.6	1.2	5.5
Average nominal interest rate on public debt (in percent)	2.1	2.1	2.1	2.2	2.3	2.6	2.0	2.0	2.0	2.2	3.2	1.4	2.1
Average nominal interest rate on external debt (in percent)	0.9	1.0	1.1	1.0	1.1	1.1	0.8	0.9	1.4	1.9	2.6	0.9	1.3
Average nominal interest rate on domestic debt (in percent)	4.8	4.5	3.9	4.2	4.4	5.7	5.0	5.2	4.6	4.2	6.0	2.9	4.5
Average real interest rate (in percent)	-3.5	-5.6	-2.4	-1.4	-0.8	-0.7	-1.0	-0.9	-0.5	-0.1	0.6	-1.6	-0.7
Average real interest rate on domestic debt (in percent)	-4.7	-3.3	-1.6	1.0	4.1	5.7	4.4	3.5	4.5	2.2	4.0	0.1	3.1
Average real interest rate on external debt (in percent)	-3.5	-5.6	-2.4	-1.4	-0.8	-0.7	-1.0	-0.9	-0.5	-0.1	0.6	-1.6	-0.7
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)	-4.9	-1.0	-1.9	...	...	...	...	...	...	...	...	0.1	...
Inflation rate (GDP deflator, in percent)	10.0	8.1	5.6	3.1	0.4	0.0	0.5	1.6	0.1	1.9	1.9	2.7	1.4
US Inflation rate (GDP deflator, in percent)	4.6	7.0	3.6	2.5	1.9	1.8	1.8	1.8	1.8	2.0	2.0	2.6	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-10.7	-5.8	5.3	-14.3	14.2	4.3	6.3	6.6	3.3	3.0	3.8	1.1	4.1
Primary deficit that stabilizes the debt-to-GDP ratio 5/	7.0	3.4	1.6	3.2	1.7	1.6	2.1	3.6	2.6	2.5	1.4	4.0	2.6
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		

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 stabilize 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.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes

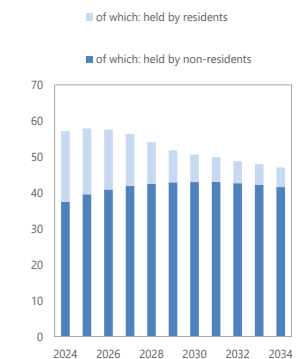
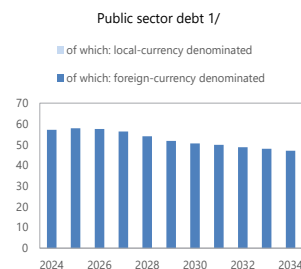


Table 3. Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2024–34
(Percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	25	26	27	27	28	28	29	29	29	29	29
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	25	29	33	37	42	47	52	57	60	63	65
B. Bound Tests											
B1. Real GDP growth	25	29	34	35	35	36	37	37	38	38	38
B2. Primary balance	25	27	31	31	32	33	33	33	33	33	33
B3. Exports	25	31	41	42	42	42	42	42	42	42	41
B4. Other flows 3/	25	35	46	46	46	46	46	46	45	45	44
B5. Depreciation	25	32	27	28	29	30	31	31	32	32	32
B6. Combination of B1-B5	25	41	49	50	50	50	50	50	50	50	49
C. Tailored Tests											
C1. Combined contingent liabilities	25	39	39	40	41	41	41	41	41	41	41
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	71	72	74	73	74	74	75	79	81	84	86
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	71	80	90	101	114	124	136	153	167	179	190
B. Bound Tests											
B1. Real GDP growth	71	72	74	73	74	74	75	79	81	84	86
B2. Primary balance	71	77	85	85	86	86	86	90	93	95	97
B3. Exports	71	104	159	156	155	154	153	159	163	165	166
B4. Other flows 3/	71	99	126	123	122	120	119	123	126	127	127
B5. Depreciation	71	72	60	60	62	62	64	67	70	72	75
B6. Combination of B1-B5	71	111	107	130	129	128	128	133	136	137	138
C. Tailored Tests											
C1. Combined contingent liabilities	71	107	109	107	109	108	107	111	114	116	118
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	5	6	6	6	5	5	5	5	5	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	5	6	6	7	6	6	7	7	8	10	11
B. Bound Tests											
B1. Real GDP growth	5	6	6	6	5	5	5	5	5	6	6
B2. Primary balance	5	6	6	6	5	5	5	5	6	6	7
B3. Exports	5	7	9	10	8	8	8	8	9	10	12
B4. Other flows 3/	5	6	7	7	6	6	6	6	7	8	9
B5. Depreciation	5	6	6	5	4	4	4	4	5	5	5
B6. Combination of B1-B5	5	6	8	9	7	7	7	7	7	9	10
C. Tailored Tests											
C1. Combined contingent liabilities	5	6	7	7	6	6	6	6	6	7	7
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	12	13	13	13	11	11	11	10	11	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	12	14	14	15	13	14	15	16	18	20	21
B. Bound Tests											
B1. Real GDP growth	12	15	17	17	14	14	14	13	14	15	15
B2. Primary balance	12	13	13	14	11	12	12	11	12	13	13
B3. Exports	12	14	15	17	14	14	14	13	14	15	17
B4. Other flows 3/	12	13	15	17	14	14	14	13	14	17	18
B5. Depreciation	12	17	17	16	12	13	13	12	13	14	13
B6. Combination of B1-B5	12	15	19	20	16	16	16	15	16	20	20
C. Tailored Tests											
C1. Combined contingent liabilities	12	13	16	16	13	13	13	12	13	14	14
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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, 2024–34
(Percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	44	43	42	40	38	36	35	35	35	34	34
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	44	45	48	50	51	52	54	56	58	60	61
B. Bound Tests											
B1. Real GDP growth	44	50	60	62	63	63	65	68	70	72	74
B2. Primary balance	44	45	48	47	45	43	42	42	41	41	40
B3. Exports	44	47	54	53	50	48	46	46	45	45	43
B4. Other flows 3/	44	52	61	59	56	54	52	52	51	50	48
B5. Depreciation	44	48	46	43	39	36	34	33	32	31	29
B6. Combination of B1-B5	44	46	50	47	45	43	42	42	42	41	41
C. Tailored Tests											
C1. Combined contingent liabilities	44	58	57	56	53	51	50	50	49	48	48
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	221	207	195	186	177	165	170	169	168	168	166
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	221	218	219	224	230	231	250	259	267	276	285
B. Bound Tests											
B1. Real GDP growth	221	236	260	266	271	271	297	310	322	335	347
B2. Primary balance	221	219	223	215	208	196	202	201	199	198	196
B3. Exports	221	229	253	241	231	217	223	221	218	216	212
B4. Other flows 3/	221	254	284	271	259	245	251	249	245	242	235
B5. Depreciation	221	236	217	201	186	170	168	162	155	150	145
B6. Combination of B1-B5	221	222	227	211	204	193	201	200	199	199	197
C. Tailored Tests											
C1. Combined contingent liabilities	221	280	267	258	247	234	241	239	236	234	232
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	17	26	24	23	17	18	15	13	13	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	17	26	24	25	19	21	18	17	17	18	19
B. Bound Tests											
B1. Real GDP growth	17	28	28	28	23	25	21	20	20	21	22
B2. Primary balance	17	26	24	24	19	20	15	14	14	14	15
B3. Exports	17	26	24	25	19	20	16	15	14	15	17
B4. Other flows 3/	17	26	25	26	20	21	17	15	15	17	19
B5. Depreciation	17	26	26	25	19	20	17	15	15	15	15
B6. Combination of B1-B5	17	26	25	24	18	19	16	14	14	15	15
C. Tailored Tests											
C1. Combined contingent liabilities	17	26	26	25	26	20	17	15	15	15	15
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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.



LIBERIA

REQUEST FOR A 40-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—SUPPLEMENTARY INFORMATION

September 25, 2024

Prepared By

African Department

This supplement provides additional information to the Staff Report (EBS/24/99) circulated to the Executive Board on September 13, 2024. It includes an update on the status of the pending prior action, as well as recent developments concerning the Central Bank of Liberia's fulfillment of a contractual obligation. The supplement does not change either the staff recommendations or the thrust of the staff appraisal.

1. Supplementary budget for 2024. On Monday September 23, 2024, the Legislature approved the supplementary budget for 2024, as agreed with Fund staff. This completed the outstanding Prior Action. As discussed in the Staff Report, the approved budget includes significant rationalization of unproductive spending and an increase in capital expenditure. Additionally, the budget introduces new tax measures, primarily a Goods and Services Tax (GST) rate increase from 10 to 12 percent for selected items, such as alcohol, gambling/betting, and consultancy services. These increases have minimal impact on the poor and vulnerable. While the Legislature allocated slightly less for debt service than requested by the Ministry of Finance and Development Planning (MFDP)—US\$105.3 million instead of the requested US\$108 million—Liberian law allows the MFDP to rectify this minor underfunding during execution without requiring the Legislature's approval. The MFDP has reaffirmed its commitment to prioritizing debt service obligations. Preliminary data up to the end of August indicate that the budget outturn is in line with the 2024 supplementary budget projections and program objectives.

2. The Central Bank of Liberia's settlement of indemnity for Bloom Bank. On September 13, the CBL fulfilled its contractual obligations extended by the previous management in favor of Bloom Bank to cover potential liabilities from a legacy court case (MEFP 136). Following the Supreme Court's ruling in June 2024, the CBL has provided a total of US\$2.5 million to Bloom Bank to settle its liabilities arising from this ruling. While the Fund does not interfere in the contractual relationships between the

CBL and third parties, this payment highlights the importance of the Prior Action to commission an independent legal review to assess the legality of these unusual central bank transactions (completed on September 5). In response to the recent development, the authorities have agreed to expedite the independent legal review and to initiate an audit—to be conducted by international auditing firm(s)—of the two banks that benefited from the abovementioned unusual CBL transactions.

**Statement by Mr. Willie Nakunyada, Executive Director for Liberia and
Mr. Tamsir Cham, Senior Advisor to the Executive Director
Executive Board Meeting**

September 25, 2024

Introduction

1. Our Liberian authorities appreciate the constructive engagement with Fund staff. They view Fund support under the successor Extended Credit Facility (ECF) arrangement as critically important to catalyze additional donor support and provide an important policy anchor to their ambitious reform agenda.

2. The Liberian economy is recovering from multiple shocks, including the COVID-19 pandemic and spillovers from the war in Ukraine, but strong headwinds from attendant development challenges and sizeable financing needs, remains challenging. The Fund support under the 2019-2023 ECF arrangement helped restore macroeconomic stability, reduce inflation, and stabilize the exchange rate. Nevertheless, sizeable financing gaps have emerged in the context of limited fiscal space, low external reserves, resurgent inflation, and elevated risk of debt service payment deferrals, coupled with large investment needs. Moreover, high commodity and energy price volatility has further widened fiscal and external imbalances. Against this backdrop, **the authorities are requesting a 40-month ECF arrangement to address urgent fiscal and balance of payment needs created by large exogenous shocks.** Support under the ECF arrangement would be important to anchor the authorities' reforms under the new development strategy centered around Agriculture, Roads, Rule of Law, Education, Sanitation, and Tourism (ARREST), which is also aimed at creating jobs and tackling poverty.

3. More broadly, reforms articulated in ARREST seek to boost agricultural productivity, improve road infrastructure and connectivity, strengthen the rule of law and fight against corruption, revamp the education system, improve the sanitary and water safety system, and promote tourism. Essentially, the Fund-supported program would complement the authorities' development agenda in addressing attendant macroeconomic challenges, including tackling inflation and foreign exchange pressures, as well as restoring fiscal sustainability and reducing debt vulnerabilities. Concurrently, reforms under the ECF arrangement will focus on rebuilding reserve buffers, strengthening governance and institutions, and advancing structural reforms

including the expansion of economic activities outside the extractive sector, enhancing financial sector stability, and enhancing the business environment. Moreover, Liberia's capacity to repay the Fund remains broadly adequate, while risks to program implementation are assessed to be manageable. Additionally, the authorities' have already demonstrated strong ownership and commitment to reforms and have taken decisive actions to restore fiscal discipline and swiftly execute priority reforms, including prior actions.

Recent Economic Developments and Outlook

4. Real GDP growth is projected to firm from an average of 4.7 percent in 2022-23, to 5.1 percent and 5.8 percent in 2024 and 2025, respectively. The robust growth rebound is attributed to a strong recovery in mining activity owing to the resumption of some mining, increased infrastructure investment with significant support from development partners, and the positive effects of improved electricity supply on economic activity. In the medium-term, growth is expected to reach 6.0 percent, supported by robust growth in mining activities benefiting from substantial expansion of iron ore mining operations and recovery in the agriculture sector.

5. Inflation eased from an average of 10.1 percent over the period January to April 2024 to 6.2 percent in June 2024. By end-2024, inflation is expected to reach an average of 6.6 percent, supported by prudent monetary policy measures, a stable exchange rate, and envisaged moderation of import prices. In the medium-term, inflation is expected to decline further to 4.8 percent.

6. The current account deficit widened from 19.0 percent of GDP in 2022 to 26.5 percent of GDP in 2023, due to increase in imports on the back of subdued export performance. Further the repayments of IMF debt and debt service obligations culminated in the decline in gross international reserves from 4.2 months of imports in August 2021 to 2.1 months of imports at end-2023. Against this backdrop, the authorities are taking measures to replenish reserve buffers during the program period to strengthen resilience against external shocks.

Fiscal Policy and Debt Sustainability

7. Our authorities are committed to a revenue and expenditure based fiscal consolidation to restore fiscal sustainability. They aim to achieve a fiscal adjustment of 6.7 percent of GDP by the end of the program and achieve a primary surplus of 2.5 percent of GDP by 2027 guided by the fiscal anchor. Specifically, the authorities intend to attain this objective by implementing a fiscal consolidation strategy through rationalization of non-priority spending and intensified domestic revenue mobilization efforts. Accordingly, the supplementary budget is underpinned

by more realistic non-tax revenue projections, as well as additional revenues mobilization measures necessary to finance public investment.

8. The authorities are taking steps to enhance budget execution and implement strict controls to contain expenditures. To this end, they will limit budget reallocations, prioritize debt service obligations, minimize cash payments, and align the budget with international standards. Importantly, they will penalize Ministries, Agencies, and Commissions (MACs) that breach public procurement laws and ensure that the Comptroller and Accounting General (CAG) issues payment orders only after careful verification of liquidity availability in the Treasury Single Account (TSA) consolidated account and in line with the monthly cash management plans. Similarly, the authorities are revamping the Treasury Management Committee (TMC) to ensure that budget execution is also aligned with available resources. At the same time, the authorities remain committed to increasing and safeguarding social and related priority spending, such as wages for teachers and health sector workers, as well as the home-grown school feeding program to increase school attendance in line with objectives of ARREST.

9. To recast the budget, the authorities will implement measures including enforcement of tax expenditure measures by narrowing investment incentives, imposing surcharges on imports by a number of infant industries, and harmonizing excise base and rates between domestic and imported goods. They also plan to use any revenues above the recast budget target to pay down highly expensive domestic debt and timely settle external and domestic debt obligations. At the same time, the authorities will shore-up the capital budget envelope, rationalize unproductive spending in goods and services, and minimize grants and subsidies. Meanwhile, the Civil Service Agency (CSA) is working on the final verification of government employees to remove “ghost workers” from the government payroll, which will further translate into a lower wage bill and additional savings.

10. The authorities are accelerating domestic revenue mobilization by modernizing and expanding the requisite infrastructure. They plan to broaden the Goods and Services Tax (GST) base and increase the rate from 10 to 12 percent for selected items, including alcohol, gambling and betting, and consultancy services. They have already adopted the VAT law, developed a detailed implementation plan for the introduction of VAT in the 2026 budget, and are working towards completing preparatory work, including the adoption of the needed VAT regulations and relevant amendments to the Revenue Code. Additionally, they will restore import surcharges on specific goods produced domestically, increase tax collection from the natural resource sector, streamline large tax expenditures, and publish a comprehensive Tax Expenditure report on a regular basis. Concurrently, the Liberia Revenue Authority (LRA), with help from development partners, plans to enhance, and expand the current tax exemption

database, improve tax compliance, and boost collections through better governance and strengthened institutions.

11. To stabilize the overall public debt at 56 percent of GDP, the authorities underline their resolve to entrench prudent fiscal management practices and rely more on concessional resources. Concurrently, they will press ahead with measures geared at improving debt management capacity and implement the medium-term debt strategy designed to strengthen debt sustainability. Further, the authorities will implement the recommendations of the IMF CD mission to strengthen the capacity of Ministry of Finance and Development Planning (MFDP) to conduct a debt sustainability analysis, prepare medium-term debt strategy, and regularize Debt Management Committee (DMC) meetings. They also undertake to engage with the Legislature to explain and provide background information on debt service projections, develop and adhere to the Debt Management Policy Manual, and increase staff and training in the Debt Management Unit (DMU).

Monetary, Exchange Rate, and Financial Sector Policies

12. The Central Bank of Liberia (CBL) is committed to prudent monetary policy efforts aimed to further entrench price, exchange rate, and financial stability. In this vein, the Monetary Policy Committee (MPC) maintained the policy rate at 20 percent since May 2024, which is appropriate to contain inflationary pressure and achieve gradual disinflation towards the 5 percent medium-term objective. Going forward, the CBL will closely monitor domestic and global economic developments and stand ready to tighten monetary policy if inflationary pressures emerge. Meanwhile, the CBL bills will remain the main policy instrument to achieve price stability, and the CBL stands ready to issue bills as needed to actively manage liquidity and contain excessive monetary growth. They are also upgrading the monetary policy framework and will gradually transition to an interest rate-based monetary policy framework with the ultimate objective of adopting an inflation-targeting framework. Further, they will establish and operationalize an interest rate corridor system with two operational standing facilities, including standing credit and deposit facilities, to enhance policy effectiveness.

13. The CBL is committed to rebuilding international reserves in the medium-term through cautious and opportunistic purchases of foreign exchange from the central government in the context of limited market activity. Further, the CBL and the MFDP agree to facilitate regular foreign exchange purchases. To this end, the authorities plan to progressively raise the share of public sector wage bill paid in Liberian dollars (LRD) and increase the transactional demand for the local currency. Similarly, the CBL reaffirms its commitment to sustaining payment of half of its wage bill in LRD and to increasingly conduct other domestic transactions in LRD. Similar

measures will be implemented in other government agencies. Relatedly, they are considering drawing up a formal and detailed de-dollarization plan that will include measures on prudential regulations and administration to promote the use of Liberian dollars within the economy. Meanwhile, the CBL will intervene in the FX market only to address disorderly market conditions and prevent excessive exchange rate volatility.

14. The authorities are committed to strengthening banking supervision to ensure financial stability. In this vein, they have re-submitted to the National Legislature, the new Bank-Financial Institutions and Bank Financial Holding Companies Act (BFIA,) and will swiftly implement the new Act once it is approved. The new Act will enhance banking supervision, anchor the resolution function in legislation, and provide the CBL with broad powers in dealing with distressed banks. Further, they plan to implement regulatory initiatives to improve banks' asset recoveries to tackle high levels of non-performing loans (NPLs). The CBL is advancing with the restructuring of all troubled banks and will act upon the findings of the recent independent external review of the NPL portfolio of the state-owned bank, requiring the bank to develop a plan to ensure timely remediation of identified weaknesses. Presently, the CBL is enhancing its capacity to improve the quality of financial soundness indicators and strengthening risk-based supervision to effectively identify key vulnerabilities in banks.

15. The authorities will develop financial safety nets, focusing primarily on the bank resolution framework. In this vein, they will approve operational guidelines and policies for bank resolution in line with IMF recommendations and designate specialized staff for the implementation of the resolution function. In parallel, they will enforce regulatory requirements to maintain financial stability and a sound banking system by strictly enforcing the new schedule of penalties for reserve requirement violations and the new provisions for more frequent adjustments of reserve requirements for monetary policy purposes. Further the CBL will discontinue advancing emergency liquidity assistance (ELA) beyond permissible periods, abolish uncollateralized loans to banks, develop a strict timeline for compliance for outstanding CBL's exposures towards banks. Relatedly, the CBL will conduct a study on the suitability of the current regulations on large net open FX positions, effect the necessary changes, and ensure strict banks' adherence to the updated provisions. Further, the authorities plan to implement regulatory initiatives to improve banks' asset recoveries to tackle high NPLs.

16. The authorities remain committed to addressing CBL governance concerns and identified risks to ensure that risks in problem banks are properly addressed. In this context, the CBL extended grants to one of the smallest banks and is committed to issue a guarantee for most of the bank's NPLs to facilitate a takeover of another troubled small bank. In this regard, the authorities have commissioned an independent review to examine whether these

transactions adhered to the Liberian laws. Going forward, they will ensure that any future intervention by the CBL will be done within the context of its lender of last resort function, and subject to strict and adequate safeguards in line with international best practices.

Structural Reforms

17. Our authorities are advancing structural reforms aimed at fostering transparency, enhancing accountability, and intensifying the fight against corruption to improve the business environment, attract new investment, and bolster economic growth. In this regard, the newly established Liberia Anti-Corruption Commission (LACC) has already ramped up their efforts to fight corruption by bringing cases to court and investigating several allegations. The upcoming Governance Diagnostic Study (GDS), requested by the authorities, will help identify weaknesses and recommend priority actions to guide governance reforms. Meanwhile, the authorities have requested the General Auditing Commission (GAC) to conduct a comprehensive audit of the MFDP covering the period 2020-2023, a special audit on the DMU, and a forensic audit of the Integrated Financial Management System (IFMS) to better understand the factors behind the notable fiscal and reserves deterioration. They will also submit the regular audit of the 2023 financial statements to the Legislature.

18. The authorities are strengthening Public Financial Management (PFM) and have adopted an action plan to implement the new PFM strategy to address other critical PFM areas. They plan to revise the PFM Act to improve, narrow down, and refocus the Legislature's large discretion in reshaping government's budget proposals, specifically in the area of increasing revenue projections during the Legislature's approval process. The proposed increase should be accompanied by new policy measures underpinning the additional revenue in consultation with MFDP and LRD. Relatedly, the authorities are enhancing public procurement and contract transparency and plan to move to e-procurement to enhance accountability and transparency. In addition, they have introduced in the new PFM regulation, the provision for penalties for MACs that fail to submit procurement plans and will hold non-compliant procurement officers accountable.

19. The authorities are strengthening the independence of the CBL despite the recent advances made to government. In this regard, they are committed to implementing key recommendations from the ongoing forensic audit and have improved their internal regulations to limit the CBL's clearance of government checks during system glitches when real time revenue inflows cannot be confirmed. They are also strengthening the regulatory framework governing check clearing procedures to disallow commercial banks from providing immediate value for government-issued checks before presenting such checks for clearing at the CBL. That

said, the CBL may extend credit to the government only under exceptional circumstances such as war, famine, and natural disasters, with maturity limitations and an aggregate principal ceiling.

20. The authorities will establish a comprehensive workplan and timelines approved by the Cabinet for the implementation of Liberia's multipronged approach to ensure transparency of beneficial ownership of legal persons. This will be achieved through collection, maintenance, and accessibility of up-to-date and accurate beneficial ownership information. It would be consistent with the national AML/CFT Strategy and Action Plan (AS-AP) 2022-2025 and designed to mitigate the country's AML/CFT risks. In this regard, they are fully implementing the Liberia Beneficial Owner Disclosure Regulations, ensuring the collection of accurate and up-to-date beneficial ownership information by all financial institutions and designated financial business and professions, and incorporating beneficial ownership disclosure requirements in procurement requirements. They are also ensuring licensing requirements for all financial institutions and ensuring that beneficial ownership requirements are extended to all entities registered by the Liberian International Ship and Corporate Registry and entities operating in the extractive sector. Relatedly, they plan to issue regulations governing wire transfers to ensure that parties managing wire transfers conform with obligations under relevant United Nations Security Council Resolutions.

Conclusion

21. The Liberian authorities remain committed to implementing the reforms articulated in the MEFP and LOI, despite a challenging domestic and external environment. To consolidate the gains registered under the previous ECF arrangement and build on the solid foundation already established, the new administration views the new Fund arrangement as critical in restoring macroeconomic stability and providing an important policy anchor. To further support their broader development objectives, as expressed in their forthcoming Development Strategy, ARREST, the authorities consider a Fund arrangement, as important to help catalyze additional donor support, address underlying structural challenges, and unleash the country's growth potential. As such, they look forward to Executive Directors' support and continued Fund technical and policy advice to help realize their growth and development aspirations.