



# LIBERIA

September 2014

## AD HOC REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR AUGMENTATION OF ACCESS AND MODIFICATION OF PERFORMANCE CRITERIA—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LIBERIA

In the context of the Ad Hoc Review Under the Extended Credit Facility Arrangement and Request for Augmentation of Access and Modification of Performance Criteria, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 26, 2014, following discussions that ended on September 15, 2014, 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 17, 2014.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Liberia.

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

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

\*Also included in Staff Report

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

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**International Monetary Fund**  
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## AD HOC REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR AUGMENTATION OF ACCESS AND MODIFICATION OF PERFORMANCE CRITERIA

September 17, 2014

### KEY ISSUES

**Background.** With the highest number of new and cumulative Ebola cases recorded to date, Liberia is the country most affected by the epidemic in West Africa. In addition to exacting a heavy human toll, the Ebola outbreak is having a severe economic and social impact, and could jeopardize the gains from a decade of peace. The largest sectors of the economy (agriculture, services and mining) have been weakened by the epidemic, resulting in significant financing gaps for the fiscal and external accounts. The closure of international borders and, in particular, the internal quarantines are disrupting labor and food supply, leading to shortages of basic commodities, depreciation pressures and higher inflation.

**Request.** The authorities are requesting an ad-hoc augmentation of access under the ECF and an immediate additional disbursement of SDR 32.3 million, equivalent to 25 percent of quota, to help bridge the significant financing need that has emerged in the wake of the outbreak. The authorities are also requesting modification of end-December performance criteria to allow on-lending of the equivalent of the Fund support to the government.

**Appraisal.** Staff supports the authorities' request for an augmentation of access and immediate disbursement in light of the urgency and size of the balance of payments need. Staff also supports the requested modification of end-December 2014 performance criteria via a program adjustor to allow the on-lending of the additional Fund support to the government.

**Program status.** The third ECF review was concluded on July 3, 2014. Available information indicates that the program remains on track and that continuous PCs are being met.

**Program financing.** The proposed augmentation would complement assistance committed by other stakeholders including US\$19 million in additional budget support from the African Development Bank and the World Bank, and would help catalyze support from other donors. The authorities have committed to take the necessary measures to address any residual financing gap.

**Approved By****Abebe Aemro Selassie  
and Chris Lane**

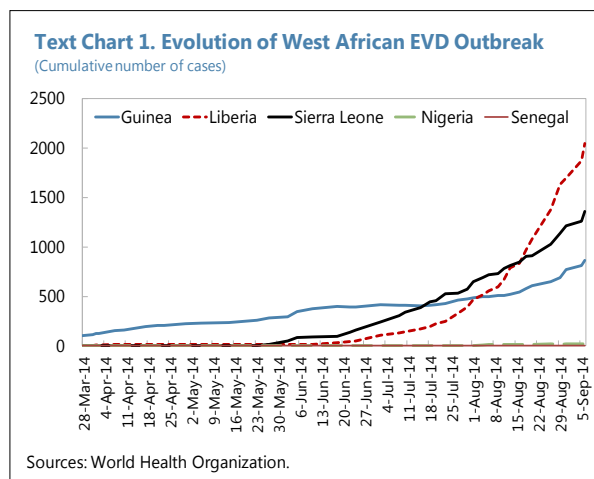
Prepared by the Liberia country team, comprising Ms. Deléchat (head), Messrs. Amo-Yartey (resident representative), Chawani, Deline (local economist), Narita, and Rosales, (all AFR), and Mr. Guo (SPR). The team held discussions during August–September through video and teleconference with Minister of Finance and Development Planning (Designate) Konneh, Central Bank Governor Mills Jones, and other senior officials.

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## RECENT DEVELOPMENTS

1. **The Ebola epidemic continues to intensify in Liberia, and has overwhelmed already weak health systems.** Since May the epidemic has spread rapidly with the number of cases and death now significantly exceeds those in Guinea and Sierra Leone (Text Chart 1). In response to the outbreak, the government set up an emergency task force headed by the President. A state of emergency was declared, all borders were closed with the exception of major entry points. Internal quarantines in some of the worst affected areas have also been constituted. However, at the moment the epidemic shows no signs of stabilization and reduction, and epidemiologists have indicated that it may take another nine to twelve months to bring the outbreak fully under control.



2. **Security concerns are increasing.** Riots erupted in Monrovia on August 20, 2014 as the government quarantined two densely-populated neighborhoods. The withdrawal of a United Nations Mission in Liberia (UNMIL) contingent for fear of Ebola also bodes ill of the authorities' ability to maintain order if food shortages become widespread.

3. **Even before the outbreak, staff was projecting growth to slow from 8¾ percent in 2013 to 6 percent in 2014.** Preliminary data through end-June 2014 were broadly in line with this projection. Strong production data for mining, manufacturing and construction were partly offset by a decline in agriculture and forestry. Inflation rose to about 11 percent in June 2014 from 8½ percent at end-2013, reflecting the pass-through of 10 percent depreciation since the beginning of the year. Trade data for end-June 2014 indicate that capital goods imports were about US\$200 million lower than previously projected.<sup>1</sup> Private credit growth slowed to 14 percent in June (y/y) following a lower U.S. dollar deposits mobilization.

4. **Program performance.** Preliminary data through end-June indicated that the program was broadly on track, though the end-June revenue floor (PC) was missed by US\$21.6 million or 1.1 percent of GDP as anticipated at the time of the third review, in spite of additional measures taken by the authorities. Budget support fell short by US\$15.2 million (0.7 percent of GDP), triggering the program adjustor. All other PCs were met. In particular, net international reserves reached US\$236 million at end-June, meeting the adjusted reserves target. Two out of four indicative targets were missed: (i) social and other priority spending was below the indicative floor in part due to lower budget support; and (ii) net domestic assets, which was missed due to a decline in

<sup>1</sup> As a result the pre-Ebola current account deficit baseline declined from 46.5 percent to 32.4 percent of GDP.

commercial banks' U.S. dollar required reserves following the recent reserves requirement reduction.<sup>2</sup> Most structural benchmarks have been met, with the exception of the submission of procurement plans by all Ministries and Agencies and the compilation of national accounts for 2008–13. The authorities have indicated that, to date, both continuous PCs (non-accumulation of new external arrears and non-contracting of new non-concessional external debt) are being met.

## IMPACT OF THE EBOLA OUTBREAK AND INITIAL POLICY RESPONSE

5. **Real GDP growth is projected to decline from 6 to 2½ percent in 2014, owing to strongly reduced activity in mining, services and agriculture in the second half of 2014.** The commerce, travel and transportation sectors are already being severely impacted by the departure of expatriates, the suspension of flights by most airlines, the closure of markets and regional borders, and internal travel restrictions due to the government's quarantine measures. There are also reports of disruptions in construction activities. Agricultural output, notably rice, is expected to decline as one of the largest producing region is under quarantine. For 2015, growth would weaken from 6¾ to 4½ percent due in part to delays in a new mining project and a projected lingering impact of the epidemic on activity at least through the first quarter.

6. **Shortages of food and other basic commodities are pushing up prices.** Restrictions on public transport, internal travel and trade are already affecting transport and food prices. Staff and the authorities project inflation to reach 13.1 percent at end-year, compared with 7.7 percent at the time of the third review. Price pressures would only gradually abate in 2015 and inflation could reach 8 percent at end-year (7½ percent previously).

7. **The Central Bank of Liberia (CBL) is using all available instruments to contain inflation and meet additional import demand.** Additional pressures on the exchange rate in July and August 2014 were met through higher CBL intervention (by about US\$9.7 million), so as to help meet a surge in foreign exchange demand. In addition, the authorities plan to issue additional CBL notes to mop up Liberian dollar liquidity.

8. **The Ebola outbreak is going to have a significant fiscal impact** (Text Table 1). Revenue collections are estimated to decline by some US\$46 million relative to the draft budget due to

**Text Table 1. Central Government, Ebola Impact**  
(Millions of U.S. dollars)

	FY2015	FY2016
Impact on revenue	45.7	49.9
Impact on spending	67.2	0.0
Emergency EVD-related spending	20.0	0.0
Social spending <sup>2</sup>	47.1	0.0
Total impact <sup>2</sup>	112.8	49.9
Spending adjustment	-20.0	-19.9
Fiscal financing need	92.8	30.0
Domestic	0.0	0.0
External	68.3	30.0
Donor support	19.0	30.0
IMF contribution	49.3	0.0
Uncovered gap	24.5	0.0

Sources: Liberian authorities and IMF staff estimates.

<sup>1</sup> Budget data expressed as fiscal year (July-June).

<sup>2</sup> Includes US\$20 million in reallocations from the capital spending budget.

<sup>2</sup> Commercial banks' U.S. dollar reserves are excluded from the definition of the base money under the program and counted as domestic liabilities.

lower receipts on trade, income, and goods and services taxes, as well as mining royalties. On the spending side, so far the authorities have identified US\$20 million in additional expenditures directly related to fighting the epidemic. Additional, Ebola-related spending needs estimated at about US\$47 million (health, security, emergency food imports, etc.), could only partially be covered by reallocations within the existing draft budget, including by reducing programmed capital spending by about US\$20 million.<sup>3</sup> Based on these preliminary estimates, staff and the authorities project that the FY2015 fiscal deficit could increase by at least US\$93 million to 11.8 percent of GDP, compared to 7.1 percent of GDP projected at the time of the third ECF review.

9. **Staff and the authorities agree that the fiscal costs of this one-off shock should be accommodated fully subject to the availability of financing.** Overall, staff and the authorities anticipate that the residual fiscal financing gap would be covered in full by additional donor resources, as some key development partners (e.g., the European Union) are finalizing their plans in response to the outbreak, and, if needed, expenditure re-prioritization. However, staff recommends to limit reallocations of capital spending to non-priority projects, as execution could pick up toward the end of the fiscal year. On the revenue side, the newly-established Liberia Revenue Authority (LRA) is making every effort to strengthen collection but expects revenue shortfalls in line with slower economic activity.

10. **The current account deficit would widen reflecting a drop in export and additional import demand.** Lower exports of iron ore and rubber and the increase in imports, particularly of rice and other foodstuffs to address domestic shortages, would generate an external financing gap of about US\$93 million. Absent additional financing or adjustment, reserves coverage could decline to approximately 2.2 months of imports compared to 2.8 months of imports projected at the time of the third ECF review.

11. **The financial sector could be adversely affected.** While data are not yet available, the deceleration of economic activity could worsen credit quality, and increase nonperforming loans. The authorities agree with staff that efforts to enforce very high provisioning standards are warranted, though this would also contribute to the decline in credit growth.

12. **The Ebola outbreak is expected to disproportionately affect the poor and vulnerable groups.** The increase in prices of basic goods would hit poor consumers' purchasing power particularly hard, while rural and self-employed services workers (together accounting for about 80 percent of total employment) are likely to lose their income. The Food and Agriculture Organization (FAO) has warned of grave food security concerns due to the disruptions to food production and distribution. In addition, reaching those in need will be particularly challenging as existing safety net programs, which focus on school feedings and cash for work programs, cannot be activated under the current circumstances.

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<sup>3</sup> Staff anticipates that donor-financed capital spending can be implemented in the second half of the fiscal year, which also coincides with the dry season, provided the epidemic is brought under control by then.

13. **Although a firm assessment is premature, the Ebola outbreak could have long-lasting repercussions on Liberia's economy.** The Ebola epidemic is causing delays in investment for mining projects and in the rebuilding of key road and energy infrastructure, which are likely to weaken the medium-term growth outlook. In addition, there are serious risks that it may take longer than anticipated to bring the epidemic under control, and that widespread unrest could erupt and spark a period of instability. Both would have long-lasting impacts on the economy through lower investment, particularly in the concessions sector, leaving Liberia's natural resources potential untapped and jeopardizing the political and macroeconomic stability gains of the past decade.

## PROPOSED AUGMENTATION

14. **The authorities are requesting an augmentation of access under the existing ECF arrangement and an immediate disbursement of SDR 32.3 million, equivalent to 25 percent of quota.** The Fund financing would be made available in full to the government in order to address urgent balance of payment needs. The proposed augmentation would also cover approximately half of the currently-estimated incremental external financing gap, and thus help limit the potential decline in gross reserves. To allow for the on-lending of the equivalent of the additional Fund support, related performance criteria will be modified via a program adjustor. In particular, the end-December net foreign reserves floor, and the ceilings on both CBL's gross direct credit to the central government and CBL's net domestic assets would be adjusted by the full amount of the ECF augmentation. Given the budget support element of the augmentation, the Government of Liberia and the CBL are establishing a framework agreement on their respective roles and responsibilities for servicing financial obligations to the Fund. This operation is a first step in the Fund's response to the Ebola crisis based on preliminary estimates of financing needs and contributions from other donors, both of which remain fairly fluid at the moment and are subject to change in the coming weeks.

15. **The authorities' request for an augmentation on this ad-hoc basis is warranted in light of the urgent nature of the external financing need.** The third ECF review was successfully completed on July 3, 2014, and available data so far indicate that the program remains on track. The authorities have confirmed that, to date, continuous PCs on non-accumulation of new external arrears and non-contracting of new nonconcessional external debt are being met. Regarding the missed end-June PC (revenue floor), preliminary data for July and August 2014 show that the LRA's corrective measures to strengthen tax controls have already led to improvements in income tax collections, with shortfalls in sales and import taxes of about US\$5 million consistent with the decline in activity. On this basis, staff would support the authorities' request for a waiver of non-observance at the time of the next ECF review.

16. **The proposed augmentation would complement assistance already committed by other stakeholders and help catalyze additional donor support.** Additional budget support by the African Development Bank and the World Bank in 2014 would amount to at least US\$19 million and help cover about 20.5 percent of the fiscal gap. Staff estimates that the residual financing gap



after the ECF augmentation would be covered in full by additional donor support, as key development partners have yet to firm up their plans but have indicated that additional resources would be forthcoming. Proposed health and humanitarian assistance by other multilateral and bilateral donors would help shore up the response to the outbreak, but is not expected to have a direct impact on the budget and would generate its own import demand. Finally, staff's balance of payments projections assume the disbursement of US\$18 million in budget support (from the World Bank and USAID) for the remainder of 2014 hitherto committed before the outbreak.

17. **The authorities' capacity to repay the Fund remains adequate.** Although debt service to the Fund is projected to peak at about 3½ percent of domestic revenue and 1.7 percent of exports of goods and services, respectively, in 2020, it should remain manageable through 2026. Even with the augmentation, total access under the ECF would remain normal, at 88.8 percent of quota.

18. **Staff will undertake a comprehensive review of policies under the program at the time of the next review.** Staff will assess the external and fiscal financing needs, as well as the rationale for modifying program targets (e.g., revenue and foreign reserves floors) in light of developments over the coming months.

19. **An update of the 2013 safeguards assessment will be conducted in the context of the ECF augmentation.** There has been good progress in implementing key recommendations, including the appointment of an internationally reputable external audit firm. Outstanding recommendations include undergoing an external peer review of the cash operations of the CBL and strengthening the internal audit function.

## STAFF APPRAISAL

20. **The Ebola epidemic is exacting a particularly heavy toll on Liberia.** The epidemic continues to spread at a fast pace with no signs of stabilizing and has overwhelmed the domestic health system. The government has responded rapidly and is working tirelessly to contain the epidemic. Nonetheless, low capacity and resources limit its ability to respond effectively. A large-scale, well-coordinated effort by the international community is urgently needed to help bring the situation under control.

21. **The epidemic is set to severely impact the economy, jeopardizing the gains from a decade of peace.** Staff anticipates that the brunt of the impact would be felt through at least the end of the first quarter of 2015. Real GDP growth in 2014 and 2015 would decline by about 2.7 percentage points on average as the three main sectors of the economy are being affected. Inflation would increase due to both shortages of basic commodities and depreciation pressures. The fiscal and external accounts would deteriorate owing to lower activity, and greater spending and import needs. Further, there are worrying signs that the medium-term outlook could also be affected by delays in the rebuilding of the energy and transport infrastructure and in mining projects.



22. **The poor and vulnerable groups would be disproportionately affected, which will require urgently stepping up social protection programs.** The poor are being hit both by higher inflation and the loss of their means of subsistence, particularly for rural and services workers. As economic activity slows and peoples' livelihoods are disrupted by the quarantines in effect in many parts of urban and rural areas, the risk of social strife and disorder is high, as exemplified by the August 2014 riots in Monrovia. At the same time, the ability of the authorities to provide assistance to the communities affected by the quarantine is limited, while the UNMIL drawdown has eliminated the presence of international peacekeepers in about half of Liberia's 15 counties.

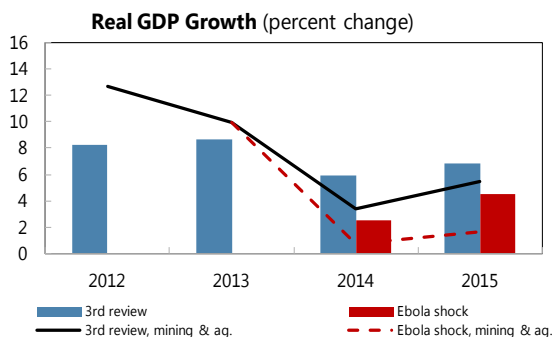
23. **The government's initial fiscal and monetary policy response to the Ebola outbreak has been appropriate.** The government has immediately identified a package of expenditures directly linked to fighting the epidemic, financed in the first instance through budget reallocations, until donor support materializes. The CBL is using available instruments to mitigate depreciation pressures and contain inflation, and is closely monitoring the banking system.

24. **The proposed augmentation would help cover part of Liberia's immediate financing needs and catalyze additional assistance committed by other donors.** Fund support would cover about half of the external financing gap. Additional donor support would be essential to avoid painful domestic adjustment measures and a decline in reserves below prudent levels, particularly as staff's preliminary estimates of financing needs may well be on the low side. The authorities have committed to implement measures necessary to cover any residual financing gap, in consultation with staff.

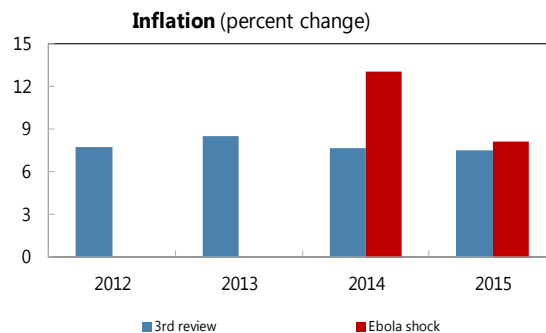
25. **Staff supports the authorities' request for an ad hoc augmentation of access and disbursement under the ECF-supported program, and for the modification of performance criteria.** The urgent nature of the balance of payments need warrants an augmentation of access ahead of the next ECF review, as well as the immediate disbursement of the amount of the augmentation. Performance under the ECF-supported program remains broadly satisfactory, and the authorities have indicated that both continuous PCs are being met at this time. Staff also supports the authorities' request for modifications of end-December 2014 program targets to allow for the equivalent of the ECF augmentation to be on-lent to the government in light of the urgent balance of payment needs. A comprehensive review of policies under the program will be undertaken at the time of the next review.

**Figure 1. Liberia: Impact of the Ebola Outbreak**  
(Percent of GDP, unless otherwise indicated)

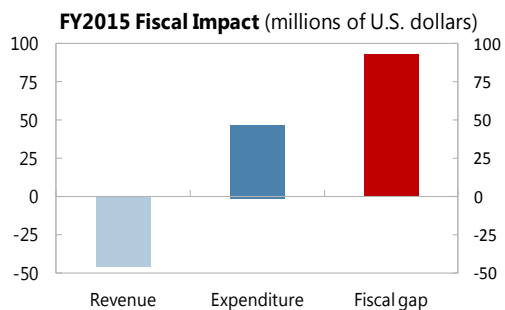
The Ebola epidemic has negatively affected growth owing in part to disruptions in mining and agricultural production.



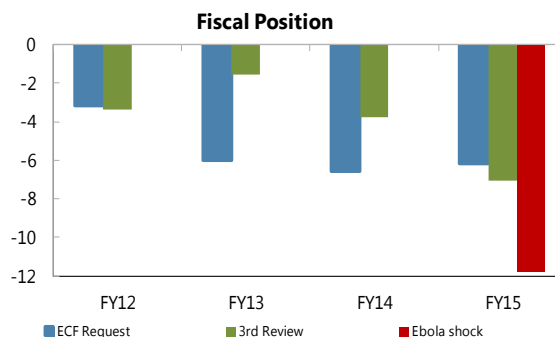
International and internal travel restrictions are causing shortages of basic commodities, which are pushing up domestic prices.



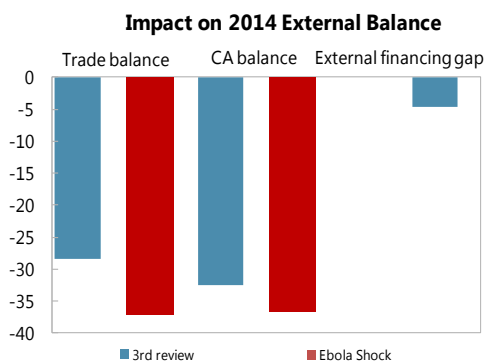
Slower economic activity is impacting revenue, while additional Ebola-related spending needs are creating a large fiscal financing gap...



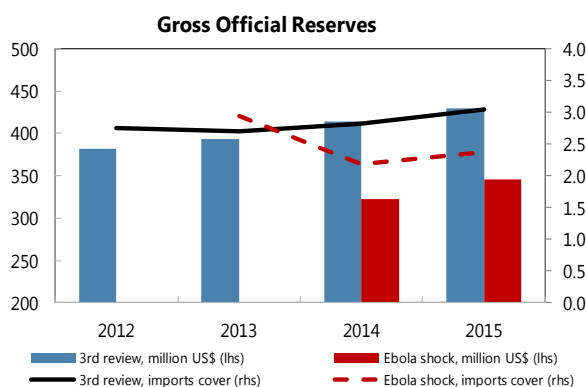
...and widening the fiscal deficit.



Lower iron ore and rubber exports, together with an increase in food and other essential imports will widen the trade and current account deficits.



In the absence of additional external financing, reserve coverage could decline to about two and half months of imports.



Sources: Liberian authorities and IMF staff estimates and projections.  
Note: Data shown excluding ECF augmentation.

**Table 1. Liberia: Selected Economic and Financial Indicators, 2012–15**

	2012	2013	2014		2015	
	Est.	Est.	Third Review	Proj.	Third Review	Proj.
(Annual percentage change)						
National income						
Real GDP	8.3	8.7	5.9	2.5	6.8	4.5
Agriculture & fisheries	1.9	-0.3	3.5	1.3	5.3	3.9
Forestry	1.7	0.5	2.0	2.0	6.5	2.0
Mining & panning	94.5	49.6	4.4	-1.3	4.8	-3.1
Manufacturing	3.1	9.1	9.6	5.0	10.1	8.3
Services	4.6	7.2	8.1	4.0	7.7	6.9
Real GDP excluding mining sector <sup>1</sup>	3.3	4.3	6.1	3.1	7.1	5.6
Nominal non-mining per capita GDP (U.S. dollar)	396.9	401.8	443.4	442.2	504.8	489.0
Prices						
GDP deflator	5.0	2.7	3.0	3.5	4.2	1.8
Consumer prices (annual average)	6.8	7.6	8.3	11.4	7.7	9.7
Consumer prices (end of period)	7.7	8.5	7.7	13.1	7.5	8.1
Population (millions)	4.0	4.1	4.2	4.2	4.3	4.3
(Percent share)						
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture & fisheries	31.6	26.3	24.5	26.3	24.4	27.0
Forestry	8.0	7.2	7.3	7.6	7.6	7.8
Mining & panning	10.7	16.9	13.3	11.5	8.9	5.6
Manufacturing	3.8	3.9	4.4	4.4	4.9	4.9
Services	45.9	45.7	50.5	50.2	54.2	54.7
(Percent of GDP, fiscal year)						
Central government operations						
Total revenue and grants	27.9	30.0	27.1	27.4	24.9	24.0
Total revenue	26.2	27.5	23.1	23.4	22.3	21.2
Grants	1.7	2.5	4.0	4.0	2.7	2.8
Total expenditure and net lending	31.2	31.5	30.9	31.2	32.0	35.7
Current expenditure	26.6	26.6	21.0	21.2	19.7	23.8
Capital expenditure	4.6	4.9	9.9	10.0	12.3	11.9
Overall fiscal balance, including grants	-3.4	-1.6	-3.8	-3.8	-7.1	-11.8
Overall fiscal balance, excluding grants	-5.1	-4.0	-7.7	-7.8	-9.7	-14.5
Public external debt	12.2	14.7	20.4	20.4	25.2	27.2
Central government domestic debt	17.7	16.7	15.1	15.2	13.9	14.5
(Percent, unless otherwise indicated)						
M2/GDP	36.2	34.9	33.9	28.4	33.1	28.7
Private sector credit/GDP	16.1	18.3	20.2	18.7	20.6	19.1
Velocity (GDP-to-M2)	2.8	2.6	3.0	3.5	3.0	3.5
Money multiplier (M2/M0)	5.5	5.8	5.9	6.1	6.7	5.8
(Percent of GDP, unless otherwise indicated)						
External sector						
Current account balance						
including grants	-27.9	-34.7	-46.5	-36.4	-35.4	-40.5
including grants, adj. for capital goods imports <sup>2</sup>	-27.9	-34.7	-32.4	-36.4	-35.4	-40.5
excluding grants	-82.7	-84.1	-89.2	-80.0	-70.0	-77.5
Trade balance	-33.6	-30.0	-42.4	-36.9	-30.6	-38.5
Exports	27.4	28.6	26.4	22.5	25.3	19.5
Imports	-60.9	-58.6	-68.8	-59.4	-55.9	-57.9
Grants (donor transfers, net)	54.8	49.4	42.7	43.6	34.6	37.0
Gross official reserves (millions of U.S. dollars)	381.3	393.1	414.0	402.0	429.9	466.3
Months of imports of goods and services <sup>3</sup>	2.8	2.7	2.8	2.6	3.0	2.9

Sources: Liberian authorities and IMF staff estimates and projections.

<sup>1</sup> Chained weighted sectoral average growth rate.

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

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

**Table 2. Liberia: Balance of Payments, 2012–15**  
(Millions of U.S. dollars, unless otherwise indicated)

	2012		2013		2014		2015	
	Prel.	Est.	Third Review	Proj.	Third Review	Proj.	Third Review	Proj.
Trade balance	-588	-587	-900	-764	-723	-848		
Exports, f.o.b.	479	559	560	467	598	430		
<i>Of which: Iron ore</i>	117	314	325	233	323	167		
Imports, f.o.b.	-1,067	-1,146	-1,460	-1,231	-1,321	-1,278		
Services (net)	-748	-743	-707	-664	-647	-637		
Income (net)	-261	-371	-345	-333	-346	-331		
<i>Of which: public interest payments due</i>	-2	-2	-3	-3	-5	-5		
Current transfers	1,108	1,022	965	1,008	878	924		
Current account balance	-489	-679	-987	-754	-837	-892		
Current account balance, excluding grants	-1,448	-1,645	-1,893	-1,658	-1,655	-1,708		
Capital and financial account (net)	451	668	977	620	835	887		
Financial account	451	668	977	620	835	887		
Foreign direct investment (net)	333	432	330	193	341	291		
Portfolio investment (net)	0	0	0	0	0	0		
Other investment (net)	118	236	647	426	495	596		
Official financing: medium and long term (net)	-3	50	106	119	132	142		
Private financing (net)	121	186	541	307	363	454		
Errors and omissions	0	0	0	0	0	0		
Overall balance	-38	-11	-10	-134	-1	-5		
Financing	38	11	10	41	1	5		
Change in gross official reserves (increase -) <sup>1</sup>	20	-12	-21	22	-16	-23		
Net use of IMF credit and loans	18	23	31	20	17	28		
Exceptional financing	0	0	0	0	0	0		
Financing gap (- deficit / + surplus)	0	0	0	-93	0	0		
Possible ECF augmentation <sup>2</sup>				48				
Grants and loans				19				
Additional financing/adjustment measures				25				
<i>Memorandum items:</i>								
Current account balance (percent of GDP)								
Including grants	-27.9	-34.7	-46.5	-36.4	-35.4	-40.5		
Including grants, adj. for capital goods imports <sup>3</sup>	-27.9	-34.7	-32.4	-36.4	-35.4	-40.5		
Excluding grants	-82.7	-84.1	-89.2	-80.0	-70.0	-77.5		
Trade balance (percent of GDP)	-33.6	-30.0	-42.4	-36.9	-30.6	-38.5		
Donor transfers (net, percent of GDP)	54.8	49.4	42.7	43.6	34.6	37.0		
Foreign direct investment (net, percent of GDP)	19.0	22.1	15.6	9.3	14.4	13.2		
Public sector external debt (medium and long term, percent of GDP) <sup>4</sup>	11.7	11.6	16.7	16.4	21.9	23.0		
Gross official reserves (months of imports) <sup>5</sup>	2.8	2.7	2.8	2.6	3.0	2.9		

Sources: Liberian authorities and IMF staff estimates and projections.

<sup>1</sup> Includes SDR holdings.

<sup>2</sup> 25 percent of quota, evaluated at the exchange rate as of September 9, 2014.

<sup>3</sup> In 2014, excludes about 14 percent of GDP in one-off imports for mining projects which will not materialize as projected, based on available information. These imports are financed by private flows which have been adjusted by the same amount. Comparison between the adjusted current account and the current projection more precisely reflects the emerging financing gap due to the Ebola outbreak.

<sup>4</sup> Recorded in fiscal years.

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

**Table 3a. Liberia: Fiscal Operations of the Central Government, FY2012–15<sup>1</sup>**  
(Millions of U.S. dollars)

	FY2012	FY2013	FY2014		FY2015	
	Act.	Prel.	Third Review	Proj.	Third Review	Proj.
Total revenue and grants	458.9	555.1	551.4	551.0	558.9	513.2
Revenue	430.6	509.4	470.9	470.5	499.3	453.6
Tax revenue	357.0	369.5	378.3	377.9	399.0	361.4
Non-tax	73.7	139.9	92.6	92.6	100.3	92.2
Grants	28.3	45.7	80.5	80.5	59.6	59.6
Expenditure and net lending	514.0	584.0	628.5	628.1	717.6	764.7
Current expenditure	437.6	493.0	427.0	427.0	441.9	509.1
Capital expenditure	76.4	91.0	201.5	201.1	275.6	255.6
Foreign loan financed	20.1	12.2	94.7	94.7	158.0	158.0
<i>Of which: Mount Coffee (loans and grants)</i>	0.0	0.0	54.5	54.5	54.5	54.5
Domestic and grant financed	56.3	78.8	106.8	106.4	117.6	97.6
<i>Of which: Domestic financed</i>	28.0	33.1	26.3	25.9	58.0	38.0
Overall balance						
Including grants	-55.1	-28.9	-77.1	-77.1	-158.7	-251.5
Excluding grants	-83.4	-74.6	-157.6	-157.6	-218.3	-311.1
Identified financing	55.1	28.9	77.1	77.1	158.7	158.7
External financing (net)	14.7	7.3	90.9	90.9	151.2	151.2
Loans	20.1	12.2	94.7	94.7	158.0	158.0
Project loans	20.1	12.2	84.7	84.7	140.0	140.0
Amortization (-)	-5.4	-4.9	-3.7	-3.7	-6.8	-6.8
Domestic financing (net)	40.4	21.6	-13.9	-13.9	7.5	7.5
Central Bank of Liberia	43.5	5.9	-38.0	-38.0	0.0	0.0
Use of deposits	23.5	19.1	-30.0	-30.0	0.0	0.0
Gross borrowing	20.0	21.2	0.0	0.0	0.0	0.0
Amortization	0.0	-34.4	-8.0	-8.0	0.0	0.0
Deposit money banks	0.0	13.7	21.1	21.1	10.0	10.0
Treasury bill purchases (net)	0.0	4.9	-1.0	-1.0	0.0	0.0
Other lending to government (net)	0.0	8.8	22.1	22.1	10.0	10.0
Other (including repayment of arrears)	-3.0	2.1	3.0	3.0	-2.5	-2.5
Financing gap (- deficit / + surplus)	0.0	0.0	0.0	0.0	0.0	-92.8
Possible financing FY2015 (excluding IMF)	0.0	0.0	0.0	0.0	0.0	19.0
Grants and loans	0.0	0.0	0.0	0.0	0.0	19.0
Residual gap	0.0	0.0	0.0	0.0	0.0	73.8
<i>Of which: IMF-ECF augmentation</i>	0.0	0.0	0.0	0.0	0.0	48.4
Additional financing/adjustment measures	0.0	0.0	0.0	0.0	0.0	25.4
<i>Memorandum items:</i>						
Iron-ore related revenue	44.6	38.3	38.0	38.0	43.8	28.1
Total public external debt <sup>2</sup>	192.1	215.7	340.4	330.5	490.6	492.8
Central government domestic debt <sup>3</sup>	291.1	309.3	307.1	306.8	310.9	310.4
<i>Of which: foreign currency denominated</i>	278.3	297.4	296.4	296.4	301.0	301.0
Basic balance <sup>4</sup>	21.3	62.1	124.4	124.0	116.9	4.1
Current balance	-7.0	16.4	43.9	43.5	57.3	-55.5
Primary balance, including grants	-50.3	-22.7	-69.1	-69.1	-149.1	-242.0
Fiscal year nominal GDP	1,645.6	1,853.0	2,034.1	2,014.0	2,242.3	2,139.3

Sources: Liberian authorities and IMF staff estimates and projections.

<sup>1</sup> Budget is shown on a cash basis (i.e., debt service payments are shown after all debt relief).

<sup>2</sup> Includes debt to IMF.

<sup>3</sup> Includes central government debt to the Central Bank of Liberia (which is excluded from domestic debt in the debt sustainability analysis).

<sup>4</sup> Basic balance is defined as (total revenue and grants minus project grants) minus (total expenditure minus foreign and domestically financed investment spending).

**Table 3b. Liberia: Fiscal Operations of the Central Government, FY2012–15<sup>1</sup>**  
(Percent of GDP)

	FY2012	FY2013	FY2014		FY2015	
	Act.	Prel.	Third Review	Proj.	Third Review	Proj.
Total revenue and grants	27.9	30.0	27.1	27.4	24.9	24.0
Revenue	26.2	27.5	23.1	23.4	22.3	21.2
Tax revenue	21.7	19.9	18.6	18.8	17.8	16.9
Non-tax	4.5	7.5	4.6	4.6	4.5	4.3
Grants	1.7	2.5	4.0	4.0	2.7	2.8
Expenditure and net lending	31.2	31.5	30.9	31.2	32.0	35.7
Current expenditure	26.6	26.6	21.0	21.2	19.7	23.8
Capital expenditure	4.6	4.9	9.9	10.0	12.3	11.9
Foreign loans financed	1.2	0.7	4.7	4.7	7.0	7.4
<i>Of which:</i> Mount Coffee (loans and grants)	0.0	0.0	2.7	2.7	2.4	2.5
Domestic and grant financed	3.4	4.3	5.3	5.3	5.2	4.6
<i>Of which:</i> Domestic financed	1.7	1.8	1.3	1.3	2.6	1.8
Overall balance						
Including grants	-3.4	-1.6	-3.8	-3.8	-7.1	-11.8
Excluding grants	-5.1	-4.0	-7.7	-7.8	-9.7	-14.5
Identified financing	3.4	1.6	3.8	3.8	7.1	7.4
External financing (net)	0.9	0.4	4.5	4.5	6.7	7.1
Loans	1.2	0.7	4.7	4.7	7.0	7.4
Project loans	1.2	0.7	4.2	4.2	6.2	6.5
Amortization (-)	-0.3	-0.3	-0.2	-0.2	-0.3	-0.3
Domestic financing (net)	2.5	1.2	-0.7	-0.7	0.3	0.4
Central Bank of Liberia	2.6	0.3	-1.9	-1.9	0.0	0.0
Use of deposits	1.4	1.0	-1.5	-1.5	0.0	0.0
Gross borrowing	1.2	1.1	0.0	0.0	0.0	0.0
Amortization	0.0	-1.9	-0.4	-0.4	0.0	0.0
Deposit money banks	0.0	0.7	1.0	1.0	0.4	0.5
Treasury bill purchases (net)	0.0	0.3	0.0	0.0	0.0	0.0
Other lending to government (net)	0.0	0.5	1.1	1.1	0.4	0.5
Other (including repayment of arrears)	-0.2	0.1	0.1	0.2	-0.1	-0.1
Financing gap (- deficit / + surplus)	0.0	0.0	0.0	0.0	0.0	-4.3
Possible financing FY2015 (excluding IMF)	0.0	0.0	0.0	0.0	0.0	0.9
Grants and loans	0.0	0.0	0.0	0.0	0.0	0.9
Residual gap	0.0	0.0	0.0	0.0	0.0	3.5
<i>Of which:</i> IMF-ECF augmentation	0.0	0.0	0.0	0.0	0.0	2.3
Additional financing/adjustment measures	0.0	0.0	0.0	0.0	0.0	1.2
<i>Memorandum items:</i>						
Iron-ore related revenue	2.7	2.1	1.9	1.9	2.0	1.3
Total public external debt <sup>2</sup>	11.7	11.6	16.7	16.4	21.9	23.0
Central government domestic debt <sup>3</sup>	17.7	16.7	15.1	15.2	13.9	14.5
<i>Of which:</i> foreign currency denominated	16.9	16.0	14.6	14.7	13.4	14.1
Basic balance <sup>4</sup>	2.6	3.3	6.1	6.2	5.2	0.2
Current balance	-0.9	0.9	2.2	2.2	2.6	-2.6
Primary balance, including grants	-6.1	-1.2	-3.4	-3.4	-6.7	-11.3
Fiscal year nominal GDP (millions of U.S. dollars)	1,645.6	1,853.0	2,034.1	2,014.0	2,242.3	2,139.3

Sources: Liberian authorities and IMF staff estimates and projections.

<sup>1</sup> Budget is shown on a cash basis (i.e., debt service payments are shown after all debt relief).

<sup>2</sup> Includes debt to IMF.

<sup>3</sup> Includes central government debt to the Central Bank of Liberia (which is excluded from domestic debt in the debt sustainability analysis).

<sup>4</sup> Basic balance is defined as (total revenue and grants minus project grants) minus (total expenditure minus foreign and domestically financed investment spending).

**Table 4. Liberia: Monetary Survey, 2012–15**  
(Millions of U.S. dollars, unless otherwise indicated)

	2012	2013	2014		2015	
	Act.	Act.	Third Review	Proj.	Third Review	Proj.
(Central Bank Survey)						
Net foreign assets	220.9	204.4	213.6	118.1	223.3	116.4
CBL's gross foreign reserves	499.3	505.8	536.2	490.8	566.0	560.7
Commercial banks' US\$ denominated deposits at CBL	118.0	112.7	122.2	88.8	136.0	94.4
CBL's gross official foreign reserves	381.3	393.1	414.0	402.0	429.9	466.3
Net domestic assets	-45.7	-47.0	-73.9	28.4	-84.1	30.0
Net claims on government	225.2	210.9	215.2	265.9	218.8	274.3
Claims on other public sector	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	1.9	2.1	2.3	2.2	2.6	2.4
Claims on commercial banks	26.9	28.1	28.1	28.1	28.1	28.1
Other items (net)	-299.6	-288.1	-319.6	-267.9	-333.6	-274.8
Monetary base (M0)	175.2	157.4	139.7	146.5	139.2	146.4
Monetary base (billions of Liberian dollars)	12.7	13.0	12.6	13.8	13.2	14.6
(Depository Corporation Survey)						
Net foreign assets	350.6	343.8	290.9	194.9	287.7	167.8
Net domestic assets	283.4	338.5	428.1	394.0	493.1	465.2
Net claims on government	214.2	223.3	252.3	302.9	255.8	311.3
Claims on public enterprises	22.3	22.6	20.7	19.7	19.6	18.6
Claims on private sector	281.6	358.2	429.5	387.4	487.5	420.3
Claims on nonbank financial institutions	2.2	1.4	1.3	1.2	1.2	1.1
Other Items (Net)	-236.8	-266.9	-255.0	-317.3	-271.1	-286.2
Broad money (M2)	634.0	682.3	718.9	588.9	780.8	633.0
L\$ component	174.1	190.1	196.9	158.5	199.7	175.2
L\$ Currency in circulation	100.6	100.3	101.7	78.8	93.8	90.4
L\$ denominated deposits	73.5	89.8	95.2	79.7	105.9	84.8
US\$ component (deposits only)	459.9	492.2	522.1	430.4	581.0	457.8
<i>Memorandum items:</i>						
Broad money (annual change)	-2.1	7.6	5.4	-13.7	8.6	7.5
L\$ component as percent of broad money	2.8	2.5	1.4	-4.6	0.4	2.8
US\$ component as percent of broad money	-4.9	5.1	4.1	-9.1	8.2	4.7
Monetary base (annual change)	21.7	-10.2	-11.2	-6.9	-0.4	-0.1
Net credit to government (annual change)	1.6	4.3	13.0	35.6	1.4	2.8
Credit to private sector (annual change)	12.7	46.5	17.0	21.5	13.5	14.8
Velocity (GDP-to-M2)	2.8	2.6	3.0	3.5	3.0	3.5
Money multiplier (M2/M0)	3.6	4.3	5.1	4.0	5.6	4.3

Sources: Liberian authorities and IMF staff estimates and projections.



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

	Dec-12	2013				2014	
		March	June	Sept.	Dec.	March	April
<b>Capital adequacy</b>							
Regulatory capital to risk-weighted assets	22.7	21.9	25.0	23.7	24.9	20.5	22.2
Reported net capitalization	14.9	14.1	14.2	14.3	13.6	14.3	13.2
<b>Asset quality</b>							
Non-performing loans to total loans	24.9	20.3	18.8	19.1	14.8	14.5	15.3
Provisions to non-performing loans net of interest in suspense	49.0	67.1	55.3	48.5	54.2	73.3	66.4
Provisions to classified loans net of interest in suspense	44.0	59.9	46.5	43.4	45.5	52.5	48.3
<b>Loan concentration (share of total)</b>							
Agriculture	4.5	6.6	4.8	5.2	5.5	6.3	6.5
Mining and Quarrying	0.6	0.8	0.7	0.3	0.4	0.5	0.5
Manufacturing	1.5	2.2	1.6	1.5	1.4	1.9	1.9
Construction	6.9	9.6	9.6	10.9	10.8	15.6	15.7
Transportation, Storage, and Communication	7.1	8.9	5.9	9.1	8.4	8.5	8.4
Trade, Hotels, and Restaurants	44.0	40.0	42.8	38.3	40.0	45.2	43.7
Services	9.7	8.9	9.7	9.8	9.5	5.8	5.5
Personal	15.0	13.9	12.0	11.7	12.0	9.6	9.8
Government of Liberia	0.4	0.4	0.4	1.4	2.1	2.1	2.0
Public corporations	1.6	1.9	1.7	1.1	1.0	0.8	0.9
Others	8.6	6.8	10.6	10.8	9.0	3.7	5.1
<b>Earnings and profitability</b>							
Return on assets	-0.1	-0.7	-0.7	-0.8	-0.5	-0.4	-0.5
Return on equity	-0.5	-4.8	-5.3	-5.8	-3.8	-2.6	-4.0
Non-interest income to total income	55.3	54.0	57.9	56.0	55.5	48.9	48.4
Net interest margin over average assets	7.4	1.4	3.7	5.8	7.2	2.1	2.3
<b>Liquidity</b>							
Liquid assets to deposits and designated liabilities	45.9	44.8	40.2	32.1	36.1	25.4	41.2
Liquid assets to net assets	34.0	32.9	29.6	23.5	26.2	18.8	27.7
Net loans to deposits	43.0	41.3	46.8	51.4	51.8	51.7	54.1

Sources: Liberian authorities and IMF staff estimates.

**Table 6. Liberia: External Financing Requirements and Sources, 2012–14**  
(Millions of U.S. dollars, unless otherwise indicated)

	2012	2013	2014	
	Est.	Est.	Third Review	Proj. <sup>1</sup>
I. Total financing requirement	-1,436	-1,661	-1,921	-1,641
Current account balance, excluding official transfers	-1,448	-1,645	-1,893	-1,658
<i>Of which</i> : exports of goods	479	559	560	467
<i>Of which</i> : imports of goods	-1,067	-1,146	-1,460	-1,231
Official debt amortization	-8	-5	-7	-5
Gross reserves accumulation (- increase)	20	-12	-21	22
II. Total available financing	1,436	1,661	1,921	1,548
Official transfers	959	966	906	904
Official medium- and long-term flows	6	54	113	124
Foreign direct investment	333	432	330	193
Private financing (net)	121	186	541	307
Use of IMF credit and loans (net)	18	23	31	20
III. Financing gap (= I. + II.)	0	0	0	-93
IV. Expected sources of financing				19
African Development Bank				9
World Bank				10
V. Residual gap (= III. + IV.)				-74
Possible ECF augmentation <sup>2</sup>				48
VI. Memorandum items				
Gross official reserves (U.S. million)	381	393	414	402
Gross official reserves (months of imports) <sup>3</sup>	2.8	2.7	2.8	2.6

Sources: Liberian authorities and IMF staff estimates and projections.

<sup>1</sup> Assuming that all the financing gap is filled by the expected donor financing and possible ECF augmentation.

<sup>2</sup> 25 percent of quota, evaluated at the exchange rate as of September 9, 2014.

<sup>3</sup> In months of the following year's imports excluding imports related to UNMIL operations and FDI projects such as iron-ore concessions.

**Table 7. Liberia: Indicators of Capacity to Repay the Fund, 2014–25**  
(Millions of SDRs, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Projections											
Prospective drawings based on existing credit	14.8	14.8	-	-	-	-	-	-	-	-	-	-
Prospective drawings based on existing and prospective credit <sup>1</sup>	47.1	14.8	-	-	-	-	-	-	-	-	-	-
ECF	47.1	14.8	-	-	-	-	-	-	-	-	-	-
Charges and interest												
Total obligations based on existing and prospective credit <sup>1,2</sup>	1.4	4.0	5.8	8.0	11.4	10.7	19.2	19.6	17.3	15.4	12.4	2.2
Repayments and repurchases	1.4	3.7	5.5	7.7	11.1	10.5	19.0	19.5	17.2	15.3	12.4	2.2
ECF-current	1.4	3.7	5.5	7.7	11.1	10.5	10.4	8.6	6.4	4.4	1.5	0.0
ECF-projected	0.0	0.0	0.0	0.0	0.0	0.0	8.7	10.9	10.9	10.9	10.9	2.2
Interests	0.0	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0
ECF-current	0.0	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
ECF-projected	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>In percent of</i>												
GDP	9.9	28.2	37.6	47.9	63.4	55.1	82.6	75.2	60.5	50.1	37.6	6.3
Gross official reserves	51.1	133.2	195.8	262.5	362.2	333.4	544.9	509.8	416.2	343.0	258.0	43.3
Exports of goods and services	25.5	82.5	100.0	130.2	180.3	151.5	201.3	184.0	150.1	129.5	101.4	17.7
Fiscal revenue (excluding grants)	45.9	128.7	171.8	220.8	295.6	259.4	412.2	376.1	304.5	251.8	188.8	30.6
Outstanding Fund credit <sup>1</sup>	109.3	120.3	114.9	107.2	96.1	85.6	66.6	47.1	29.9	14.6	2.2	0.0
<i>In percent of</i>												
GDP	772.5	853.7	750.2	645.6	535.8	441.7	286.2	180.9	104.4	47.5	6.7	0.0
Gross official reserves	3,983.9	4,038.0	3,904.8	3,534.7	3,063.2	2,670.6	1,889.2	1,226.1	718.0	325.2	46.2	0.0
Exports of goods and services	1,990.9	2,499.8	1,993.9	1,753.1	1,525.0	1,213.4	698.0	442.6	258.9	122.7	18.2	0.0
Fiscal revenue (excluding grants)	3,581.8	3,900.1	3,427.1	2,972.6	2,500.5	2,077.9	1,428.9	904.6	525.4	238.7	33.8	0.0
Quota	84.6	93.1	88.9	83.0	74.4	66.3	51.5	36.5	23.1	11.3	1.7	0.0

Sources: Liberia Finance Department and IMF staff estimates.

<sup>1</sup> 2014 includes the proposed ECF augmentation of SDR 32.3 million (25 percent of quota) under the current arrangement.

<sup>2</sup> On December 21, 2012 the IMF Board extended through December 31, 2014, the waiver of interest payments for concessional loans that was introduced on January 7, 2010. After 2014, projected interest charges are based on 0.25/0.25/0.5/0.25 percent per annum for the ECF, RCF, SCF, and ESF, respectively. The Fund will review the interest rates for all PRGT facilities by end-2014 and every two years thereafter.

<b>Table 8. Liberia: Schedule of Disbursements Under the ECF Arrangements, 2012–15</b>		
<b>Amount (Total: SDR 83.98 million)</b>	<b>Date of Availability<sup>1</sup></b>	<b>Conditions for Disbursement<sup>2</sup></b>
SDR 7.382 million	November 19, 2012	Executive Board approval of the three-year ECF arrangement
SDR 7.382 million	July 3, 2013	Executive Board completion of the first review under the three-year ECF arrangement
SDR 7.382 million	December 11, 2013	Executive Board completion of the second review under the three-year ECF arrangement
SDR 7.382 million	July 3, 2014	Executive Board completion of the third review under the three-year ECF arrangement
SDR 32.300 million	September 26, 2014	Executive Board approval of augmentation of access of 25 percent of quota under an ad hoc review
SDR 7.382 million	November 15, 2014	Executive Board completion of the fourth review under the three-year ECF arrangement
SDR 7.382 million	May 15, 2015	Executive Board completion of the fifth review under the three-year ECF arrangement
SDR 7.388 million	November 15, 2015	Executive Board completion of the sixth review under the three-year ECF arrangement

Source: IMF staff estimates.

<sup>1</sup> With respect to completed reviews, the date indicated refers to the date of the Executive Board meeting.

<sup>2</sup> In addition to the conditions that normally apply to an ECF arrangement.

## Appendix I. Letter of Intent

Monrovia, September 17, 2014  
Madame Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, D.C.

Dear Madame Lagarde,

1. This letter requests an immediate augmentation of access under our ECF arrangement of SDR 32.3 million (25 percent of quota) and the approval of a disbursement of SDR 32.3 million to help us address the negative impact of the Ebola epidemic on Liberia's external position and support our efforts in containing the outbreak. In order to allow for the additional Fund disbursement to be on-lent in full to the government, we also request that the following end-December performance criteria be modified, via an adjustor: (i) floor on CBL's net foreign exchange position, (ii) ceiling on CBL's gross direct credit to the central government (both performance criteria), and (iii) indicative target on net domestic assets of the CBL (see attached proposed amendment to the Technical Memorandum of Understanding and Table 1).

2. The Ebola epidemic is exacting a heavy toll on Liberia. The second wave of the epidemic that started in June has spread very rapidly, both in terms of numbers of new cases and geographic areas affected.<sup>1</sup> Our fragile health system lacks the capacity to deal with an epidemic of that intensity, and has been further weakened by the numerous deaths of our health workers.

3. In addition to being a human tragedy, the Ebola epidemic also threatens our hard-won gains in terms of economic and social progress since the end of the civil war a decade ago. Prior to the outbreak, Liberia had been growing at about 8 percent on average since 2011, institutions had been re-built, and social indicators were gradually improving.

4. The economic and social impact of the outbreak is expected to be significant and to linger into 2015. Preliminary estimates indicate that real GDP growth in 2014 could decline from 5.9 to 2.5 percent, and from 6.8 to 4.5 percent in 2015 as the largest sectors of our economy are affected, namely agriculture, services and mining. Domestic production and exports are being hit by the

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<sup>1</sup> The first wave of the outbreak started in March 2014 and ended in May 2014.

border closures, internal quarantines and cancellations of international flights. The departure of expatriate workers is significantly affecting production in the foreign concessions sector. In turn, this is likely to generate significant fiscal and external financing gaps. Disruptions to trade and food production will also push up inflation. The poor will be disproportionately affected, both due to higher prices and the loss of income for informal workers in agriculture and services.

5. We do hope that the governments' vigorous efforts, supported by the international community, will succeed in containing the epidemic in the coming months. In response to the Ebola outbreak, President Ellen Johnson-Sirleaf has declared a state of emergency and strict internal quarantines of affected areas. The government has established an Ebola Trust Fund, managed by a special committee set up by the government, and already contributed an amount of US\$5 million out of a total US\$20 million in additional spending needs directly related to containing the epidemic. In addition, we foresee that containing the epidemic will require additional outlays for expenditures related to security, health, communication strategy and emergency food distributions. Only a portion of these additional expenditures could be covered by budget reallocations. At the same time, the decline in economic activity and trade is projected to generate a substantial revenue loss for the rest of the fiscal year, so that, overall, the fiscal deficit could increase by close to US\$100 million or about 4½ percentage points of GDP.

6. The CBL has stepped up its intervention in the foreign exchange auction to help contain depreciation pressures and anchor inflation, by offering an additional amount of US\$6.9 million in July. We also plan to issue additional CBL bills to manage Liberian dollar liquidity. The reduction in domestic activity may negatively impact the quality of banks' portfolios, and we will closely monitor the banking system to ensure the health and stability of the system, taking into account the necessary prudential measures.

7. The requested additional access under the current ECF arrangement will help us address the immediate balance-of-payment need associated with the epidemic. Lower export receipts and higher imports of food and basic commodities to address domestic shortages would generate an external financing gap of around US\$93 million. So far, pledges of additional international support would help cover only a portion of the external and fiscal financing gaps, but we are confident that the Fund's disbursement will provide a strong signal that will help catalyze support from other donors, so that forthcoming assistance would help cover remaining financing gaps. The government will reallocate resources within the budget from non-priority funding to finance its efforts to contain the epidemic until further donor support materializes, and to meet any unfilled residual financing gap, in consultation with Fund staff. Given the budget support element of the augmentation, a Memorandum of Understanding will be signed between the Ministry of Finance and Development

Planning and the Central Bank of Liberia on our respective roles and responsibilities for servicing financial obligations to the Fund.

8. Going forward, the government remains committed to the design and implementation of measures and policies to address the current crisis and support the subsequent recovery in a manner that maintains macroeconomic stability and financial sustainability, in line with the broad objectives of the program. At the moment, the government is working on an economic recovery and revitalization plan, recognizing that a post-Ebola economy will require changing the structure and fundamentals of the economy to deal with shocks, given that the current crisis has exposed the weaknesses of the existing economic structures. Key areas of investment under consideration for the post-Ebola economic program will include infrastructure; the Liberian private sector; food and small tree crop production; and our people, by rebuilding the health care delivery system, educational system, and ensuring a better social safety net regime which explicitly targets individuals or groups of individuals, i.e., poor households, women, children or the elderly who are often considered to be the most vulnerable especially in areas affected by Ebola. In developing these measures and policies, we will continue to work in close consultation with IMF staff.

9. The government believes that the policies described in the MEFP of June 17, 2014 and this Letter of Intent are adequate to achieve the program's objectives. However, if necessary, the government stands ready to take any additional measures that may be required. The government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP of June 17, 2014, in accordance with Fund's policies on such consultations.

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

Sincerely yours,

\_\_\_\_\_/s/\_\_\_\_\_  
 Amara Konneh

Acting Minister of Finance and Development Planning  
 Ministry of Finance and Development Planning

\_\_\_\_\_/s/\_\_\_\_\_  
 Joseph Mills Jones

Executive Governor  
 Central Bank of Liberia

Attachment: Amendment to the June 2014 Technical Memorandum of Understanding



## Attachment 1. Amendment to the Technical Memorandum of Understanding

To account for the impact of the disbursement of the ad-hoc ECF augmentation on end-December program targets, an addendum to paragraph 17 (External Financing Adjustor) of the June 2014 TMU will read as follows:

**17bis. Adjustor for ad-hoc augmentation of access under the ECF.** The program ceilings for CBL gross credit to government and CBL net domestic assets will be adjusted upward and the program floor on the net foreign exchange position of the CBL will be adjusted downward, by the amount of the Fund disbursement under the ad hoc augmentation of access under the ECF. The adjustor will apply to the end-December 2014 program targets.

**Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, FY2013–14**  
(Millions of U.S. dollars, unless otherwise indicated)

	Dec. 13		Status	Mar. 14		June 14			Status	Sep. 14		Dec. 14	
	Program	Actual		Program	Actual	Program	Adjusted <sup>11</sup>	Prel.		Program	Program	Adjusted <sup>12</sup>	
<b>Performance criteria<sup>1, 2</sup></b>													
Floor on total revenue collection of the central government <sup>3</sup>	230.3	214.5	Not met	347.8	335.6	492.1	492.1	470.5	Not met	125.0	245.0	245.0	
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	
Ceiling on new non-concessional external debt of the public sector (continuous basis) <sup>4</sup>	14.2	0.0	Met	14.2	0.0	14.2	14.2	14.2	Met	14.2	14.2	14.2	
Ceiling on new domestic borrowing of the central government <sup>5</sup>	30.0	14.0	Met	35.0	13.0	35.0	35.0	13.0	Met	40.0	45.0	45.0	
Floor on CBL's net foreign exchange position <sup>6, 7</sup>	217.0	237.3	Met	221.0	230.2	245.0	229.8	236.0	Met	249.0	253.0	201.8	
Ceiling on CBL's gross direct credit to central government <sup>7</sup>	284.9	264.4	Met	284.9	266.7	260.9	276.1	267.5	Met	260.4	260.4	308.8	
<b>Indicative Targets</b>													
Ceiling on gross external borrowing by the public sector <sup>8</sup>	118.2	150.9	Not met	118.2	160.9	265.0	265.0	184.9	Met	153.2	153.2	153.2	
Ceiling on net domestic assets of the CBL <sup>6, 7</sup>	3.0	-23.7	Met	3.0	-22.8	-25.0	-9.8	4.5	Not met	-25.0	-25.0	26.2	
Ceiling on new domestic arrears/payables of the central government (continuous basis)	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	Met	0.0	0.0	0.0	
Floor on social and other priority spending (percent of total actual expenditure, excluding contingencies) <sup>9</sup>	30.0	35.9	Met	30.0	27.3	30.0	30.0	28.7	Not met	30.0	30.0	30.0	
<b>Memorandum items:</b>													
Total spending on education, health, social development services (percent of total actual expenditure, excluding contingencies)	25.0	22.9	...	25.0	17.9	25.0	25.0	...	...	25.0	25.0	25.0	
Programmed receipt of external budget support grants and committed external loans <sup>2, 10</sup>	53.3	31.1	...	55.9	31.1	61.6	61.6	46.4	...	2.5	18.0	18.0	

Sources: Liberian authorities and IMF staff estimates and projections.

<sup>1</sup> Test dates for performance criteria at end-June 2013, end-December 2013, end-June 2014, and end-December 2014 otherwise indicative targets.

<sup>2</sup> Fiscal targets are cumulative within each fiscal year (July 1-June 30).

<sup>3</sup> Total central government revenue collection includes all tax and non-tax receipt but excludes all contingent revenues and budget support grants.

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

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

<sup>6</sup> Includes SDR holdings net of ECF liabilities. SDR holdings converted at program exchange rate of 1 SDR=1.5844 US dollar.

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

<sup>8</sup> This nominal target is set based on a three-year average annual ceiling in NPV terms.

<sup>9</sup> Includes spending on education, health care, social development services, and energy.

<sup>10</sup> The PC excludes the grants for Mount Coffee executed by the Liberian Electricity Company.

<sup>11</sup> The actual targets based on the automatic adjusters.

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



INTERNATIONAL MONETARY FUND



Press Release No. 14/441  
FOR IMMEDIATE RELEASE  
September 26, 2014

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Approves US\$130 Million in Immediate Assistance to Guinea, Liberia, and Sierra Leone in Response to the Ebola Outbreak**

The Executive Board of the International Monetary Fund (IMF) today approved—in an expedited decision supported by a joint statement of all Directors—emergency financial assistance to Guinea, Liberia, and Sierra Leone totaling US\$130 million to help respond to the Ebola outbreak. The IMF financing will be made available to the three countries immediately, in the amounts of US\$41 million for Guinea, US\$49 million for Liberia and US\$40 million for Sierra Leone. This emergency financing comes in addition to the assistance provided under existing programs for these countries. It will help cover part of the immediate balance of payments and fiscal needs currently estimated at about US\$100 million for each country.

“The Ebola outbreak in Guinea, Liberia, and Sierra Leone has already cost too many lives,” said IMF Managing Director Christine Lagarde. “This humanitarian crisis could also have deep economic consequences. The governments of Guinea, Liberia and Sierra Leone requested IMF support to enhance their efforts to contain this unprecedented epidemic that is disproportionately affecting the most vulnerable in their populations. The IMF is working hard with the authorities of the affected countries and their development partners to ensure that the outbreak is quickly brought under control and to assist the economic rebuilding effort that must follow.”

The Ebola Outbreak affecting the three countries has created a significant social and humanitarian crisis, and has so far proven difficult to contain despite efforts by the respective governments and their development partners. It is also having an acute macroeconomic and social impact on the three already-fragile countries. The crisis is still unfolding, but preliminary IMF estimates indicate that growth could decline by at least 3–3½ percent in Liberia and Sierra Leone and by about 1½ percent in Guinea in 2014. Inflationary pressures have flared up in the affected countries, and significant fiscal financing needs have emerged as the outbreak has caused sharp declines in tax revenues and Ebola-related spending had to be increased substantially. Additional and sizeable budget support from bilateral and multilateral development partners is urgently needed to avoid painful domestic adjustment measures and help eradicate the disease.

The Executive Board of the IMF today approved an augmentation of access of 25 percent of quota under the current Extended Credit Facility<sup>1</sup> (ECF) arrangements for Liberia and for Sierra Leone, resulting in an increase of almost 50 percent in financing under their existing arrangements; and a 25 percent of quota financing under the Rapid Credit Facility<sup>2</sup> (RCF) arrangement for Guinea.

Following the Executive Board's discussion, Ms. Christine Lagarde, Managing Director and Chair, made the following statement:

“The Ebola outbreak is taking a very high human toll in Guinea, Liberia, and Sierra Leone. Unless brought under control, the epidemic will reverse the advances that these countries have made in recent years under Fund-supported programs toward mending their still fragile economies. Large-scale and well-coordinated assistance by the international community is urgently needed to support the national authorities' efforts to contain the devastating impact of the disease. Against this background, the Fund's Executive Board strongly and expeditiously supported the authorities' request for financial assistance.

“The outbreak is affecting Guinea, Liberia, and Sierra Leone in different ways, but in all cases it is expected to reduce economic growth significantly and fuel inflationary pressures. The poorest and most vulnerable segments of the population are being disproportionately affected by disruptions in commerce and the higher prices of food and basic commodities. Fiscal deficits are projected to widen due to lower revenues as economic activity slows as well as higher additional outlays on emergency programs. Current account balances are also projected to worsen owing to the decline in exports and the increase in food and other critical imports. Preliminary staff estimates put the combined financing gap at about US\$300 million, provided that contagion is stopped early next year.

“The Fund resources made available today will cover almost half of this financing need. Additional balance of payments and budget support from multilateral and bilateral donors is needed to avoid painful adjustment measures and safeguard macroeconomic stability. The rapidly deteriorating health situation underscores the urgency of this support.

“The Fund is closely monitoring the situation and stands ready to provide further assistance through this challenging period.

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<sup>1</sup> The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems.

<sup>2</sup> The RCF is a lending arrangement that provides rapid financial support in a single, up-front payout for low-income countries facing urgent financing needs.

**Background:**

**Liberia:** The ECF arrangement for Liberia of about US\$79.9 million was approved by the IMF's Executive Board on November 19, 2012 (see Press Release No. 12/449). The additional and immediate financing of US\$49 million increases the funds available under the ECF to US\$130 million.

**Sierra Leone:** The ECF arrangement for Sierra Leone of about US\$ 95.84 million was approved by the IMF Executive Board on October 21, 2013 (see Press Release No. 13/410). The additional and immediate financing of US\$40 million brings the funds available under the ECF to US\$136 million.

**Guinea:** The ECF arrangement for Guinea of about US\$198.9 million was approved by the IMF's Executive Board on February 24, 2012 (see Press Release No. 12/57). Guinea is making satisfactory progress under this existing ECF arrangement, but will receive emergency funding of US\$41 million under the RCF due to a pending ECF review.

**Statement by Momodou Bamba Saho, Executive Director for Liberia  
September 26, 2014**

**Introduction**

The current outbreak of the Ebola Virus Disease is exacting a heavy toll on Liberia. As the epidemic increases exponentially, both in terms of numbers of new cases and geographic areas affected, resources and capacity to handle a shock of this magnitude continue to run thin resulting in severe social and economic consequences. The crisis comes at a time when the Liberian authorities, committed to their Fund-supported program, were contending with significant structural issues that had been constraining robust and inclusive economic development. Their economic strategy, however, remains focused on addressing these structural challenges to anchor growth on a more sustainable path. In this regard, the Liberian authorities are appreciative to Management and staff for putting together a rapid response package, in the form of augmentation of access under the ECF arrangement to respond to the Ebola shock.

**Program Performance**

The third ECF review was successfully completed on July 3, 2014, and despite the challenging environment, the authorities have maintained the program broadly on track through end-June. All PCs were met except the end-June revenue floor, which was missed by 1.1 percent of GDP. Corrective measures to strengthen tax administration have led to some improvements especially in income tax, with shortfalls in sales and import taxes, consistent with the decline in activity. Budget support also fell short by 0.7 percent of GDP, triggering the program adjustor. Two out of four indicative targets were missed. Social and other priority spending was below the indicative floor, partly attributed to lower budget support. The indicative target on net domestic assets was missed following a recent reduction in the U.S dollar reserves requirement for commercial banks. Most structural benchmarks were met with the exception of submission of the procurement plans by all ministries and agencies and the compilation of the national accounts for 2008–13. Otherwise, continuous PCs on non-accumulation of new external debt arrears and non-contracting of new nonconcessional external debt, are being met.

However, in order to address the adverse impact of the Ebola crisis on Liberia's external position and to support efforts in containing the outbreak, my authorities request an augmentation of access under the existing ECF arrangement and a disbursement of SDR 32.3 million which is equivalent to 25 percent of quota. To allow for on-lending of the equivalent of the additional Fund support to the central government, they request that related end-December performance criteria be modified, through an adjustor. These are: the floor on Central Bank of Liberia (CBL)'s net foreign exchange position, the ceiling on CBL's gross direct credit to the central government, as well as the indicative target on net domestic assets of the CBL.

## **Recent Developments**

The resurgence of Ebola since June and its gradual escalation into a national emergency in Liberia is not just devastating the Liberian population but it is also crippling all sectors of the economy. This epidemic is the worst ever crisis since Liberia's civil war that ended a decade ago, and threatens the gains made so far in terms of social and economic progress. Prior to the outbreak, Liberia had been growing at 8 percent on average since 2011, institutions were being rebuilt and social indicators were gradually improving. Growth was however expected to decline to 5.9 percent in 2014, as mining production leveled temporarily, coupled with the fall in international prices for rubber and iron ore, before rising to 6.8 percent in 2015 and 7.2 percent in 2016. Preliminary estimates now indicate a decline in real GDP growth in 2014 to 2.5 percent and to 4.5 percent in 2015, as the largest sectors of the economy; agriculture, mining and services, are severely affected.

In response to the Ebola outbreak, the government has declared a state of emergency and strict quarantine measures in the affected areas. In addition, domestic production and exports have been hit by closure of markets and regional borders, as well as cancellations of international flights. The departure of expatriate workers is significantly affecting production in the foreign concessions sector. This in turn is likely to generate significant fiscal and external financing gaps. Disruptions to trade and food production are already affecting transport and food prices. Inflation is projected to reach 13.1 percent at the end 2014 compared with 7.7 percent estimate before the crisis. The CBL is using available instruments to contain inflation and mitigate depreciation pressures.

The decline in economic activity is projected to generate a substantial revenue loss for the rest of the fiscal year, and yet expenditure demand has also increased substantially. As a result, the overall fiscal deficit could increase by close to 4 ½ percent of GDP. The current account deficit is also expected to widen reflecting the drop in exports, coupled with additional import demand to meet domestic shortages. Therefore, reserves coverage could decline to approximately 2.2 months of import cover compared to 2.8 months of imports that was earlier projected.

The poor are being disproportionately affected by the crisis, both due to higher prices and the loss of income for informal workers especially in agriculture and the service sectors.

## **Fiscal Policy**

The highest priority in government spending remains the fight against Ebola which is contributing significantly to the economic slowdown and posing the greatest threat to the population. New austerity measures to create fiscal space for more investment into the fight against Ebola have been introduced and government institutions have been asked to reduce expenditure. The Liberian government has set up the Ebola Trust Fund and has already contributed US\$5 million out of US\$20 million in supplementary spending needs that are directly related to the epidemic. In addition, containing the epidemic will require additional



expenditures related to security, health, communication strategy and emergency food distributions. Only a portion of these additional expenditures can be covered by budget reallocations.

The pledges from international development partners received so far should help to cover only a portion of the external and fiscal financing gap. Thus the additional access requested under the current ECF arrangement will help to address the immediate balance of payments needs associated with the epidemic. Further, the Fund's disbursement will provide a strong signal to catalyze support from other donors to cover the remaining financing gaps.

### **Monetary Policy and Financial Sector Developments**

In the challenging environment, the CBL will continue to implement monetary policy with a view to maintaining price and exchange rate stability. It has stepped up its intervention in the foreign exchange auction to help contain depreciation pressures and anchor inflationary expectations. The CBL also plans to issue additional CBL bills to manage Liberian dollar liquidity.

The reduced domestic activity may negatively impact on the quality of banks' portfolios with worsening credit quality and increasing nonperforming loans. The CBL however, continues to monitor the banking system to ensure the health and stability of the system, and stands ready to take the necessary prudential measures.

### **Conclusion**

My authorities remain committed to the design and implementation of prudent measures and policies that address the current crisis and support the subsequent recovery while maintaining macroeconomic and financial stability within the broad objectives of the program.

At the moment, the authorities are working on an economic recovery and revitalization plan, recognizing that the post-Ebola economy will require changing and strengthening the structure of the economy to deal with shocks given that the current crisis has exposed the weakness of the existing economic structures.

However, though the government's efforts, with support of the international community, are helping to contain the epidemic, its rapid spread and daily evolution may result in the need for additional resources to contain it and address the widening impact on the country. These additional outlays for expenditures may not only be needed to stabilize the health situation but also to sustain the authorities' social and economic transformation agenda that would help build resilient structures, enhance food security, job creation and income generation. It is in this regard that my authorities urge the Fund to stand ready to provide additional financial support in the event the adverse scenario requiring additional financing materializes.