

BUFF/19/21

December 10, 2019

**Statement by the Staff Representative on Liberia
Executive Board Meeting
December 10, 2019**

- 1. This staff statement does not alter the thrust of the staff appraisal in the staff report but is intended to provide clarification and confirmation on selected issues.**
- 2. The authorities completed all prior actions.** Prior actions on improving macroeconomic management, addressing weaknesses in public financial management and governance, and safeguarding the central bank's foreign exchange reserves were met before the staff report was submitted to the Board. Two remaining prior actions on bank supervision and central bank governance were completed on December 6, 2019.
- 3. The latest fiscal report submitted shows improvements in fiscal cash control.** Staff note that the authorities are staying within the available resources. The strict segregation of duties between the Budget Department, which is responsible for making allotments, and the Fiscal Affairs Department, which is in charge of issuing cash release schedules based on up-to-date liquidity forecasts, is helping the authorities to align commitment expenditure to cash revenue.
- 4. The Central Bank of Liberia (CBL) has sufficiently reduced its spending and is on track to meet the ceiling on the CBL's operational and capital spending.** The CBL's budget outturn for October and November show that it contained its spending to the agreed targets for those months. Among the measures the bank has implemented include laying-off about one-third of staff in October and November as well as renegotiation of procurement contracts to levels that are consistent with their revised budget.
- 5. The CBL and the government signed an agreement that bundles all CBL credit to the government into a long-term bond that pays interest of 4 percent.** Following the confirmation of CBL credit to the government by an external auditor as of end October 2019, the two parties signed the agreement on December 6, 2019 for the amount of US\$487 million. Together with sufficient reduction in operational expenditure, this agreement implies that the CBL will earn sufficient income for its monetary policy operations during the program period.
- 6. The process to print additional local currency is underway.** In response to the recent shortage of Liberian dollar banknotes, the authorities are in the process of ordering the printing of additional currency to stock-up the reserves. Although this has generated debate on whether to replace the whole currency, the authorities are committed to only

restrict the new printing to additional notes needed to meet demand. Meanwhile, the exchange rate appreciated to L189/US\$ as of December 5, compared to L211/US\$ at end-October, possibly in response to the recent tightening of macroeconomic policies and an acute shortage of Liberian dollar banknotes.

7. Financial sector liquidity shortages, however, have elevated downside risks to the end-December 2019 Net International Reserve (NIR) target, which was set ambitiously. Increased FX liquidity demand in recent weeks has resulted in a lower NIR than the target for end-December according to the latest data. Staff will monitor those movements closely.