April 8, 2020
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/44-1

10:00 a.m., May 31, 2019

1. Liberia—2019 Article IV Consultation

Documents: SM/19/108 and Supplement 1; and Supplement 2

Staff: Saito, AFR; Fletcher, SPR

Length: 27 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors	Alternate Executive Directors
	K. Obiora (AE)
	M. Sidi Bouna (AF), Temporary
G. Lopetegui (AG)	
	J. Shin (AP), Temporary
	M. Coronel (BR), Temporary
	P. Sun (CC)
	J. Montero (CE), Temporary
	P. Mooney (CO), Temporary
	S. Benk (EC)
	F. Bellocq (FF), Temporary
	K. Merk (GR)
S. Gokarn (IN)	
	M. Psalidopoulos (IT)
M. Kaizuka (JA)	
	K. Badsi (MD), Temporary
	F. Al-Kohlany (MI), Temporary
	R. Doornbosch (NE)
	J. Sigurgeirsson (NO)
	S. Potapov (RU), Temporary
	F. Rawah (SA), Temporary
P. Inderbinen (SZ)	
	T. Hemingway (UK), Temporary
	S. Vitvitsky(US), Temporary

G. Tsibouris, Acting Secretary
H. Malothra, Summing Up Officer
D. Alcantara, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
African Department: D. Jenya, D. Robinson, M. Saito, C. Tejada Grullon. Finance Department: J. Grochalska, S. Matai. Legal Department: C. Joseph Marian, N. Rendak, D. Schwarz. Monetary and Capital Markets Department: C. Lattie. Strategy, Policy, and Review Department: K. Fletcher. World Bank Group: M. Bakanova.
Alternate Executive Director: I. Mannathoko (AE), M. Siriwardana (IN). Senior Advisors to Executive Directors: Y. Danenov (SZ), K. Karjanlahti (NO), G. Gasasira-Manzi (AE),

E. Rojas Ulo (AG), T. Sitima-wina (AE). Advisors to Executive Directors: P. Braeuer (GR), X. Cai (CC), D. Cools (NE), J. Essuvi (AE), J. Garang (AE), M. Ismail (AE), B. Jappah (AE), I. Lopes (IT), R. Lopes Varela (AF), M. Mulas (CE), S. Vitvitsky (US), A. Zaborovskiy (EC).

1. LIBERIA—2019 ARTICLE IV CONSULTATION

Mr. Mahlinza and Mr. Jappah submitted the following statement:

Context and Background

Our Liberian authorities appreciate the candid discussions during the recent 2019 Article IV Consultations. They value the Fund’s policy advice and look forward to continued collaboration and engagement to restore macroeconomic stability and achieve sustainable and inclusive economic growth.

Liberia is facing major economic challenges emanating from the decline in commodity prices, significant drop in external grants, the lingering effects of the Ebola epidemic, and a massive scale down in the operations of the United Nations Mission in Liberia (UNMIL). To address these challenges, the new administration launched a medium-term national development plan, the Pro-poor Agenda for Prosperity and Development (PAPD 2019–23) in October 2018. The PAPD aims to give power to the people through macroeconomic empowerment and job creation; promotion of a cohesive society; provision of basic social services; creation of an enabling environment to foster peace and security; enforcement of the rule of law; and promotion of the private sector as the driver of growth.

Recent Economic Developments and Outlook

Economic activity slowed down from 2.5 percent in 2017 to 1.2 percent in 2018, owing to subdued demand for primary products in the export market, namely rubber and iron ore. Meanwhile, gold production improved due to a slight increase in global prices. Inflation accelerated from 13.9 percent in 2017 to 28 percent end 2018, triggered by a 27 percent depreciation of the Liberian dollar.

Despite improvements in gold exports, the current account deficit remained high at 23 percent of GDP in 2018. Improvements in the trade balance were also offset by declines in current transfers mainly from lower aid flows and the withdrawal of the UNMIL. Foreign exchange reserves are projected to decline to 2.1 months of import cover by end 2019, from 3 months of imports at end 2018.

In the short to medium term, the authorities are taking steps to accelerate economic growth beyond the 2 percent projected by staff for 2020, through the implementation of prudent fiscal, monetary and structural policies. In addition, they are committed to mobilizing additional fiscal resources, cutting non-productive recurrent spending, eliminating borrowing from the Central Bank, and avoiding reliance on high-cost external financing. These efforts will be complemented by support from the international community.

Fiscal Policy and Debt Management

To achieve fiscal sustainability, the authorities have initiated a fiscal reform program anchored on increased revenue collection and expenditure efficiency, including management of the wage bill. In this respect, the authorities have launched a Domestic Revenue Mobilization Strategy aimed at raising revenue by 3 percent of GDP over the medium term, starting with a 0.25 percent increase in the next fiscal year. At the same time, new measures have been introduced to improve revenue collection and administration as well as broaden the tax base. Such measures include a new excise law, passed by the National Legislature in December 2018; introduction of electronic tax filing; and establishment of a platform for payment of taxes via mobile money. In addition, the authorities are also taking steps to simplify the tax code, improve the collection of property taxes, strengthen tax compliance and risk management, improve the integrity of the taxpayer's registry, and improve the system for the processing of customs declarations.

Despite the challenges in the implementation of the FY 18/19 budget, the authorities have instituted across the board cuts on goods and services including subsidies, while preserving health, education, and security expenditure. More significantly, the authorities continued to rationalize salaries of public servants in the high-income bracket, including those in the SOE sector, and introduced a hiring freeze. Further, they initiated work on payroll reforms with a view to harmonize wages and remove the discretionary management of allowances. They have also requested technical assistance (TA) from the Fund to evaluate the social impact of these reform measures. In addition, the authorities are reforming the management of public investments with the aim to enhance the implementation of donor-supported projects and align them to the government's national development plan. In this respect, a donor database has been developed, based on the PIMA recommendations.

Going forward, the authorities have prioritized preparation of a realistic and credible budget for FY 19/20. To this end, the FY19/20 revenue estimates will be based on the previous year's outturn, reflecting macroeconomic fundamentals. The authorities have also intensified consultations among the three branches of government, as part of the preparations for the FY 19/20 draft budget, with a view to achieve consensus.

The authorities remain committed to implementing public financial management (PFM) reforms. In this context, they are working with development partners to ensure that the successor PFM project, IPFMRP II, addresses the core PFM challenges facing the country, including building human and institutional capacity in public procurement, investment in tax IT infrastructure, and improving cash management. Amendments to the PFM Law, aimed at strengthening budget execution and arrears management as well as transparency and accountability across government, have been submitted to the National Legislature.

The authorities are committed to maintaining debt on a sustainable level and preserving a moderate risk of debt distress. In this respect, all new development projects will be financed on using grants or concessional financing. These policies will be anchored in the new debt management strategy to be developed with TA support. Meanwhile, the authorities plan to cancel two loans that would have led to debt sustainability breaches.

Monetary Policy

The Central Bank of Liberia (CBL) is fully committed to tightening monetary policy, as necessary, to ensure price and exchange rate stability while safeguarding foreign exchange reserves. In this regard, the fiscal and monetary authorities have agreed on a policy coordination framework to facilitate implementation of the recommendations of the last safeguards assessment, including the promotion of the integrity of the CBL. The authorities have also committed to strengthening internal controls and improving budget effectiveness and efficiency at the CBL. They are stepping up efforts to address Government obligations to the CBL, with recapitalization of the Central Bank being a priority. In addition, the authorities are strengthening the work of the Liquidity Working Group (LWG) to improve the liquidity forecasting and management framework.

As part of an effort to modernize the monetary policy framework and deepen the financial sector, the CBL recently launched new monetary instruments, including a Standing Credit Facility (SCF), a Standing Deposit Facility (SDF), an Intra-day Facility (IDF) and CBL bills. Together, these facilities are expected to help in the management of monetary conditions and pave the way for a move towards an interest-based monetary framework.

To strengthen the governance and operational independence of the CBL, and consistent with Fund TA advice, the authorities completed the drafting of amendments to the CBL Act. The final draft includes provisions for a monetary policy committee, expansion of the Bank’s mandate, restriction of CBL lending to government, a currency regime and assignment of the right to print the currency solely to the CBL. The plan is to submit the amended Act to the National Legislature for passage into law before the Legislature goes into recess in August 2019.

The authorities view the FX surrender requirement as a temporary measure, to be removed as soon as foreign exchange inflows improve. In order to mitigate the negative impact of the remittance split policy, the authorities will ensure that recipients get the fair value of their Liberian dollar receipts based on the market exchange rate.

Financial Sector Policies

The financial sector remains adequately capitalized, with all banks operating above the 10 percent capital adequacy ratio (CARs), except one bank which remains below the minimum capital requirement of US$10 million. The CBL is working with the undercapitalized bank to resolve the breach in an orderly and timely manner. Meanwhile, the ratio of non-performing loans (NPLs) to total loans declined from 14.7 percent in 2017 to 13.8 percent in 2018. To address NPLs, the authorities have stepped up recovery efforts, and banks have written-off a number of bad loans based on the write-off policy of the CBL. At the same time, the credit reference system is being upgraded. Further, the Bank is working with the fiscal authorities to resolve all direct and indirect GOL obligations to commercial banks, through the issuance of 7-year bonds.

In line with FATF's recommendations, a draft AML/CFT Act has been completed and will be validated by stakeholders, shortly. When passed into law, the Act will address concerns raised by FATF and regional bodies, through the establishment of an appropriate legal framework for the timely access to beneficial ownership and control of trust information and non-profit organizations. Further, the CBL has conducted an AML/CFT risk assessment of the financial sector and developed an AML/CFT on-site examination manual, with TA from the IMF. In addition, the CBL with Fund TA is working on the revision of the Financial Institutions Act (FIA), which should further strengthen the CBL's legal framework for banking regulation and supervision. The Bank has also taken measures to enhance transparency and disclosure standards in the banking system through the implementation of the International Financial Reporting Standards (IFRS).

Structural Policies

The authorities are committed to implementing a range of structural reform measures to improve the business climate and deliver broad-based inclusive growth. They have set up a Business Climate Working Group (BCWG) comprising the private sector, donor community, and government representatives, to identify binding constraints to private investment and provide concrete proposals for the improvement of the business climate. To this end, the authorities have issued an Executive Order aimed to reduce administrative and processing requirements for businesses, concessionaries, and real property owners. They have also abolished the import permit declaration system (IPD), which was viewed as a hindrance to business competition and costly to importers. Further, a new Land Rights Act has been passed and will provide certainty of ownership to agricultural concessionaires. As part of an effort to address corruption, the authorities have drafted amendments to the anti-corruption legislation in line with the PAPD objective to strengthen integrity of institutions, including the Judiciary.

Conclusion

The authorities remain committed to achieving the key objectives of the PAPD and enhancing sustainable and inclusive growth. To anchor the reform agenda and address the short to medium term macroeconomic challenges, the authorities have signaled a desire to negotiate an extended credit facility (ECF) arrangement with the Fund. They look forward to continued Fund engagement to address the macroeconomic challenges facing the country and achieving sustainable and inclusive growth.

Mr. Kaizuka and Mr. Minoura submitted the following statement:

We thank staff for the comprehensive reports and Mr. Mahlinza and Mr. Jappah for their informative statement. As staff pointed out, Liberia is a fragile, post conflict country with weak capacity and limited physical and human capital accumulation. We take note with concern that policy uncertainty and slippages adversely affected the economy and reduce both fiscal and external buffers. Moreover, the near- and medium-term outlook is now worse than anticipated at the time of last year’s Article IV consultation, as growth for 2019 has been revised down from 4.7 percent to 0.4 percent. Against this background, it is indispensable to implement a comprehensive package of reforms including a combination of fiscal and monetary tightening and structural policies, as underpinned in the reform scenario, which should be supported by the future Fund program. We invite staff’s comment on a program prospect so far – i.e. is there any program request/interest from the authorities? As we agree with the thrust of the staff appraisals, we will limit our comments to the following points:

Fiscal Policy

Fiscal policy should be anchored by ensuring debt sustainability in the medium-term while allocating resources to priorities. While there are huge spending needs to achieve strong and inclusive growth by reducing its pervasive poverty and large infrastructure gap, Liberia faces resource constraints as the revenue to GDP ratio remains low and external assistance has declined, while almost two thirds of total budget expenditure are accounted for by the wage bill. In this regard, we agree that civil service reform, stronger domestic revenue mobilization and public financial management (PFM) reforms are essential. The FY2020 budget also needs to be based on realistic revenue projections to enhance budget credibility and achieve efficient allocation of resources. At the same time, we concur with staff that it is equally important to use created fiscal spaces to safeguard social spending, given the pressing need to build human capital, especially for younger generations.

Monetary and Exchange Rate Policies

Avoiding Central bank of Liberia (CBL) financing and strengthening the CBL's operational independence are prerequisites for ensuring the effectiveness of monetary policy and controlling inflation. In this light, we agree with staff that Liberia should prioritize the passage of the CBL Act amendments to strengthen the governance structure of the CBL, create a plan for the recapitalization of the CBL, and clarify the prohibition of USD lending to the government. Regarding the uses of USD-indexed CBL bills, the authorities view it as necessary to mop up liquidity outside the banking system, while staff recommend that it should be suspended until the fiscal financing gap is closed without CBL financing. Could staff elaborate more on how the authorities' concern could be mitigated? Given the declining level of foreign exchange reserves and the exchange rate overvaluation, greater flexibility in the exchange rate would be important.

Financial Sector Policy

While the banking sector appears adequately resourced, there are concerns and risks including the relatively high NPL ratio, exposure to government arrears and low correspondent banking relationships (CBR). Against this backdrop, we concur with staff that the CBL should enhance its supervision to deal with risks in the financial sector. We urge the authorities' prompt amendments to the Financial Institutions Act (FIA) to strengthen the legal framework for bank supervision and resolution, including compliance with AML/CFT regulations and Basel III. Developing financial market infrastructure is also important to make the interbank market more functional and efficient.

Governance Issue

As there are strong needs to enhance transparency and accountability across a wide range of government activities, we urge the authorities to step up efforts to strengthen governance and reduce corruption. While we welcome that the Pro-poor Agenda for Prosperity and Development (PAPD) recognizes this need and set out anti-corruption measures, such as enhancing the Liberia Anti-Corruption Commission's (LACC) powers of investigation and prosecution, the effective implementation should be ensured on this front. It is also critical to upgrade AML/CFT frameworks and implement an asset disclosure regime for senior public officials in line with international standards and best practices.

Statistical Issue

Continuous efforts to improve a quality of data are warranted. High quality data is essential for Fund surveillance and economic policy making. While recent efforts to improve classification of monetary and fiscal data with the support of the Fund's technical assistance (TA) are encouraging, further improvements are also needed in Government Financial Statistics, including the coverage of financial statements of the State-Owned Enterprises (SOEs). Against this background, we would like to know how staff see adequacy of TA in this field and possible measures to enhance the effectiveness of TA and ensure proper prioritization to be in place.

Mr. Benk and Mr. Zaborovskiy submitted the following statement:

We thank staff for the well-written report and Messrs. Mahlinza and Jappah for their helpful buff statement. Both the near- and medium-term outlook for Liberia have deteriorated since last year's Article IV report. The unsustainable macroeconomic policy mix on the backdrop of the severe developmental challenges exacerbates the existing vulnerabilities and weighs on Liberia's economic growth. To avoid the detrimental consequences of an abrupt macroeconomic adjustment, decisive and well-coordinated measures are needed. While we broadly agree with the thrust of the staff's appraisal and policy recommendations, we note that the proposed reform scenario seems ambitious and requires well-sequenced implementation. We encourage the authorities to recalibrate their policies, complemented by human capital development as well as advancing the pro-poor policy agenda.

The front-loaded fiscal consolidation should be based on credible expenditure and revenue measures and underpinned by structural fiscal reforms. We share staff's sense of urgency on the need for fiscal adjustment. The loose budget stance and monetary financing of the government's deficit remain at the core of the existing macroeconomic imbalances. The proposed consolidation strategy in the reform scenario (Text Table 1) requires sizable domestic revenue mobilization and sustained expenditure cuts. Given the scale of fiscal consolidation, we would appreciate staff's further elaboration on how the proposed composition of fiscal adjustment is consistent with the strong growth recovery projected from 2021onwards. Are there any measures which could play a catalytical role for reversing the declining external assistance? We strongly support staff's recommendations to adjust the budget based on realistic revenue projections, to proceed with the long-overdue civil service reform, and to advance the public financial management while redirecting budget expenditures towards more growth-friendly measures, including education and social spending.

Monetary policy tightening should go hand-in-hand with strengthening the central bank's governance and operational frameworks. Elevated inflation and falling FX reserves point to the urgent need to adjust the monetary policy stance and contain the central bank's financing to the government. We welcome the efforts towards strengthening the monetary policy framework. However, we agree with staff that several important preconditions should be in place for this framework to function properly and effectively. The issuing foreign currency credit to the government by the central bank should be halted, and the central bank's operational independence needs to be strengthened. We call on the Liberian authorities to implement the recommendations of the Fund's TA in this area, consolidate the central bank's budget to reduce the resulting drain on foreign exchange reserves, and lessen restrictive measures in the foreign exchange system. To address the external sector weaknesses, a combination of sound macroeconomic policies and structural measures remain critical. In this regard, we support the staff's focus on improving competitiveness, reinforcing institutions, and increasing price flexibility which, along with a nominal exchange rate adjustment, are essential for facilitating external rebalancing.

Risks to financial stability require vigilant monitoring and effective mitigation. We positively note staff's conclusion that the banking sector appears adequately capitalized. Nevertheless, elevated NPLs, banks' high exposure to sovereign risks, and emerging pressures on capital of some banks point to the need of strengthened supervision and resolution legal frameworks as well as their enforcement, including compliance with AML/CFT regulations and Basel III. We echo staff's call on the Liberian authorities to accelerate the full implementation of the needed measures to safeguard financial stability as well as to address concerns raised by FATF and regional bodies regarding the AML/CFT framework. Going forward, deepening financial inclusion is critically important to support sustainable growth. We welcome staff's comments on the recent progress and the authorities' plans in this area.

Strengthening institutions and governance as well as reducing corruption remain essential to boost physical and human capital accumulation. The ambitious Pro-poor Agenda for Prosperity and Development (PAPD), launched by the authorities, requires far-reaching and comprehensive structural and developmental policies to be implemented. We urge the authorities to accelerate reforms to address existing institutional weaknesses, including in the judicial system, governance, the fight against corruption and the protection of property rights. Focus on education and human capital related spending remains indispensable to lift the growth potential. Finally, data collection should be strengthened to address persistent weaknesses. We call on the authorities to improve the quality of economic statistics, including the coverage of financial statements of the state-owned enterprises and government debt data.

Mr. Raghani, Mr. N'Sonde and Mr. Lopes Varela submitted the following statement:

We thank staff for their well-written report and Mr. Mahlinza and Mr. Jappah for their informative buff statement.

The singular challenges faced by Liberia warrants steadfast domestic policy and reform implementation sustained by considerable external support. Liberia continues to face challenging economic hurdles arising from its fragile and post-conflict situation, including high poverty incidence, weak physical and human capital and significant needs in basic public services. We also note that the country's fiscal and external position remain weak—including low international reserves—and the outlook is subject to significant risks. Against this backdrop, we agree with staff that policies should focus on restoring macroeconomic stability and building external buffers while creating needed fiscal space and promoting structural reforms to advance the country' s development agenda. In this connection, we welcome the authorities'

Pro-poor Agenda for Prosperity and Development and encourage them to gather adequate support to ensure successful implementation.

We concur with staff appraisal and would like to emphasize the following points.

Steadfast fiscal consolidation is crucial to restoring macroeconomic stability and maintaining moderate risk of debt distress. We welcome the authorities' fiscal adjustment efforts aimed at streamlining current spending while securing social and capital expenditure. However, we agree that much needs to be done to create adequate fiscal space to meet essential developmental and social spending needs. We encourage the authorities to consider revising the budget for 2019 to adjust spending in line with the lower-than-expected revenue outturn. Further expenditure control efforts should be undertaken, including the removal of ghost workers from the payroll and unifying employment hiring at the Civil Service Agency. We would appreciate staff information on the estimated savings that the removal of the identified ghost workers would generate. On the revenue side, improving domestic resource mobilization and tax administration will be crucial to buttress the authorities' agenda and consolidation efforts in the context of reduced donor' support. In this regard, the completion of the medium-term revenue strategy is a step in the right direction. Going forward, realism of assumptions underpinning budgets is essential for the credibility of efforts to address fiscal imbalances.

We see merit in tightening the monetary policy stance given underlying inflationary pressures. We welcome the recent efforts to improve the monetary framework. However, to support ongoing fiscal consolidation efforts, we urge the authorities to avoid Central Bank financing to help contain inflationary pressures. While efforts to mop up excess liquidity are warranted, they should be carried through monetary financing operations that are most cost-effective. We also encourage the authorities to swiftly amend the Central Bank Act as to strengthen the independence and supervision capacity of the Central Bank of Liberia (CBL) to adequately conduct monetary policy and interbank market operations for better liquidity management.

Structural reforms should be pursued to enhance resilience—including through preserving financial stability—improve competitiveness and foster private sector development. To this end, we encourage the elaboration of the Financial Institution Act to strengthen banking supervision and regulatory frameworks. We also invite the authorities to undertake measures to ensure compliance with the prudential standards, especially on non-performing loans, with the view to support credit to the private sector while reinforcing financial stability. Exchange rate flexibility should be complemented by actions to bolster structural competitiveness through improvements in the business climate and investments to close infrastructure and human capital gaps. Furthermore, addressing economic data gaps and further improving their quality, with support from the IMF, would be needed to make better-informed policy decisions.

With these remarks, we wish the authorities of Liberia success in their endeavors.

Mr. Rosen, Ms. Pollard and Mr. Vitvitsky submitted the following statement:

We thank staff for the candid Article IV and Mr. Mahlinza and Mr. Jappah for their comprehensive buff statement. We are concerned over Liberia's economic outlook, declining fiscal and external buffers, governance issues, and poor social and health indicators. We acknowledge the difficult external environment, including declining commodity prices and the drawdown of the UN mission. Still, the monetary and fiscal policy mix has contributed to these challenges as well, and we encourage the authorities to work with the IMF and international partners to develop and commit to a strong reform agenda and macroeconomic framework. We broadly agree with Fund staff's appraisal in the Article IV.

Monetary policy

We agree that monetary policy should be tightened, and that central bank financing of the government, particularly in foreign currency, should be eliminated. The central bank's introduction of a new policy framework is a good step to improve monetary policy. That said, we agree with staff that it will only be effective if the central bank's operational independence is improved and fiscal policy prudently tightened. Moreover, amid rising inflation and government needs for foreign exchange, we encourage the authorities to borrow Liberian dollars from the market and then exchange for U.S. dollars at the central bank at market rates. The current process of direct central bank lending to the government in foreign currency not only reduces FX reserves, but does not address excess Liberian dollar liquidity and high inflation.

Additionally, there are significant weaknesses in central bank safeguards, physical security, governance, and internal audit. This is a critical and urgent area for reform where technical assistance from the international community can be helpful. Can staff elaborate on any ongoing efforts by the authorities to address these weaknesses, how central bank reforms can best be sequenced, and any ongoing and/or proposed technical assistance?

Fiscal Policy

As staff describe, there are structural rigidities in the budget that limit social service delivery and contribute to expansionary fiscal policy. The significant fiscal cost of the wage bill, and limited allocation to health and education employees, demonstrates poor budget allocation. Donors have been supporting the civil service reform agenda in Liberia since 2008, and we strongly urge the authorities to reallocate budget delivery to the most pressing areas. Can staff provide comments on the revised 2020 budget?

On the DSA, Liberia remains at moderate risk of debt distress, but continued fiscal loosening along with additional non-concessional borrowing could quickly shift Liberia to high risk of distress. We note that the government signed two loan agreements that it is now trying to cancel and is also seeking to issue a bond to clear domestic arrears. Can staff elaborate and comment on these plans and on implications for debt sustainability?

We acknowledge the significant infrastructure needs of Liberia. At the same time, we encourage the authorities to seek grants and concessional financing rather than collateralized or non-concessional loans. In this regard, we are glad to read Messrs. Mahlinza and Mr. Jappah's statement that all new development projects will be financed with grants or concessional financing.

Corruption and Governance

The bank-note scandal, controversy around the government's "mop-up" exercise, and subsequent investigations demonstrate the importance of reducing corruption and strengthening governance and transparency. We were pleased to see that the Article IV focused on these issues, including in Annex II. Improving macroeconomic policies will not be enough to raise economic growth and living standards. Along these lines, we strongly encourage the authorities to enhance the Liberia Anti-Corruption Commission's powers of investigation and prosecution, and to implement an asset disclosure system for senior government officials.

Program

Finally, we would appreciate an update from staff on prospects for a program and the key conditions Fund staff will be seeking in consultation with the authorities. Given that Liberia recently had an Extended Credit Facility, we would be interested in any lessons learned and how they could be integrated in a new program.

Mr. Ray, Mr. Shin and Mr. Kikiolo submitted the following statement:

We thank Mr. Mahlinza and Mr. Jappah for their useful buff statement and staff for their comprehensive set of reports. Liberia is a fragile post conflict country with weak capacity and limited physical and human capital. We noted economic activity in 2018 slowed because of weak commodity prices, declining external grants, and the lingering effects of the Ebola breakout. The near to medium-term growth trajectory hovers below 2 percent under current policies. To address widespread poverty, we encourage the authorities to implement a comprehensive package of reforms to achieve higher and inclusive growth. We broadly agree with the staff report and recommendations and make the following comments for emphasis.

We encourage the authorities to contain the fiscal deficit to ensure public debt is sustainable. This requires stronger implementation of the domestic revenue mobilization strategy and improvements in spending efficiency. We positively note the measures the authorities instituted to broaden the tax base and improve tax administration as well as the passage of a new excise law. While the across the board cuts on goods and services including subsidies is commendable, we note that structural rigidities within the budget, particularly the wage bill are a major constraint on efforts to preserve spending in health, education and security. We are aware of the authorities' limited absorptive capacity as discussed in Annex IX, but we see value in the payroll reform and urge staff to assist with the authorities' TA request. We invite staff comments on the authorities' absorptive capacity in this area and in terms of traction for policy advice.

We welcome the new monetary policy framework but noted that more needs to be done to improve the transmission mechanism. The new monetary policy instruments that the CBL introduced in February 2019 are commendable. We are also encouraged by the authorities' acknowledgement of the need to improve the coordination of monetary and fiscal policies. We urge the authorities to liaise closely with the Fund on their TA request to ensure the CBL amendment is progressed as planned. The banking sector's high exposure to government arrears is concerning, but we are encouraged by Mr. Mahlinza's and Mr. Jappah's buff statement, which indicated that the CBL is working closely with the fiscal authorities to resolve the arrears through a 7-year bond issue.

Future growth in Liberia will continue to be hampered by poor governance and significant gaps in physical and human capital, if these issues remain unaddressed. The establishment of the Business Climate Working Group is commendable as it showed the commitment of the authorities to address governance issues and improve the business environment. We share staff's view that infrastructure investment should go in tandem with human capital development to fully generate the growth dividend. While we welcome the intentions of the Pro-Poor Agenda for Prosperity and Development (2018-2023) plan that was launched in August 2018, we noted that there is limited policy space to execute the plan to achieve the desired outcomes. In this regard, we see scope for development partners to engage meaningfully with the authorities to help address these concerns to boost growth.

Mr. Doornbosch, Mr. Merk, Mr. Psalidopoulos, Mr. Braeuer, Mr. Cools and Ms. Lopes submitted the following joint statement:

We thank staff for the informative set of papers and Mr. Mahlinza and Mr. Jappah for their helpful buff statement. Liberia's economic performance has been poor, with low growth, rising inflation and depletion of foreign currency reserves. Continuing on this path will fuel popular discontent and will prevent the achievement of inclusive and sustained development. We agree with the thrust of the reform package proposed by staff and commend the authorities for their collaborative engagement with the Fund. We commend staff for their sustained engagement with Liberia, in particular through extensive TA, in line with the IEO Report on IMF involvement in fragile states.

We would like to add the following points for emphasis.

Fiscal Policy

We note that Liberia faces a financing gap, even under the reform scenario described by staff, and that current on and off budget resources will be insufficient to finance the Pro-Poor Agenda for Prosperity and Development ('PAPD'). In this context, we wonder whether further Fund engagement – notably through a program – is being considered. We agree with staff that Liberia should refrain from non-concessional borrowing and risky collateralized agreements and that renewed Fund engagement should contribute to unlocking concessional donor funding. We welcome the authorities' plan to cancel the two non-concessional loans referred to in the report that would have led to debt sustainability breaches, and ask staff to follow up on this cancellation.

To reduce Liberia's financing gap going forward, strengthening revenue mobilization is key. Fund TA in this light is critical. The report mentions that the government completed its medium-term revenue strategy in November. Can staff provide more information and share its assessment on this strategy?

On the expenditure side, we agree with staff that the rapidly rising wage bill needs to be reformed, as was already recommended in last year's staff report. An audit of the payroll will be crucial for the implementation of an effective reform of the wage bill. At the same time, we agree with staff on the need to safeguard social spending, given the pressing need to build human capital.

Monetary Policy

We commend the authorities for having introduced a new monetary policy framework. Given staff's qualification of the Central Bank of Liberia ('CBL') as a passive agent, we particularly welcome the introduction of a monetary policy advisory committee which should give the CBL independent monetary policy capabilities. Can staff provide a state of play of the implementation and an assessment of the effectiveness of the future monetary policy advisory committee?

We welcome the authorities' commitment to recapitalize the CBL and to eliminate government borrowing from the CBL, as highlighted in Messrs Mahlinza's and Jappah's buff statement. We are however concerned about new risks that have emerged in the areas of autonomy, governance, and currency operations, and urge staff to help the authorities with addressing these challenges. As described in the buff statement, the implementation of the CBL Action Plan must be front and center in further Fund engagement to address these issues. Finally, we urge the authorities to closely scrutinize the operational budget of the CBL.

Structural Reforms

The PAPD is an important blueprint for development for the authorities. Together with staff, we encourage the authorities to not only focus on infrastructure, but also on the many human capital needs, first and foremost on education. We urge the authorities to work on a well-sequenced implementation schedule of the PAPD agenda.

We welcome the extensive attention in the staff report to governance issues and subscribe to the set of prioritized recommendations. Strong commitment by the authorities on these recommendations will be crucial to unlock donor funding. In this light, can staff elaborate on potential governance flaws related to the decision-making procedure on approving the two non-concessional loans referenced above? How does staff intend to recommend remedying these flaws?

Statistical Issues

We take note that, even though there have been some improvements, serious shortcomings in data provided to the Fund continue to hamper surveillance and we encourage the authorities to sustain their efforts to improve data quality.

Mr. Lopetegui and Mr. Rojas Ulo submitted the following statement:

We thank staff for a clear and concise report and Mr. Mahlinza and Mr. Jappah for their helpful buff statement.

Liberia’s economy remains vulnerable and the challenging outlook calls for the implementation of appropriate macroeconomic policies to regain stability and underpin sustainable growth. Large internal and external imbalances remain in place and affect economic performance. Economic growth is low, at 1.2 percent for 2018, 0.4 percent for 2019 and projected by staff below 2 percent over the medium term under the baseline scenario. We concur with the report’s recommendation to expedite reforms to bring macroeconomic stabilization, promote sustainable growth, enhance confidence, and improve the external position.

The fiscal consolidation process should be achieved by strengthening the fiscal stance through revenue mobilization and more efficient spending. The overall budget deficit is projected to deteriorate and widen from -5.5 percent of GDP in 2018 to -6.1 percent of GDP in 2019, due to high current spending, low revenue and increasing debt burden. In the absence of adjustment, government financing needs will continue to rise, while external assistance is projected to decline by 1 percent of GDP. We broadly agree with the recommendations to implement a sustainable fiscal adjustment. Further progress that enhances public finance management will also be necessary.

The accommodative monetary policy has led to high depreciation increasing the inflation rate and affecting macroeconomic stability. FX interventions, the drawdown of government deposits, and the CBL credit to the government implies that gross international reserves have declined, and the external position is substantially weak. There is a need to tighten monetary conditions and avoid financing of public operations, while letting the exchange rate adjust to a level consistent with a sustainable external position.

The financial soundness indicators are favorable although oversight against potential risks should be reinforced to strengthen the resilience of the economy. The authorities should continue monitoring the banking system, developing financial market infrastructure, guaranteeing availability of Liberian dollars, and controlling the exposure to government arrears. Non-performing loans (NPLs) are still relatively high and above the regulatory threshold. We support staff's recommendation to accelerate the implementation of the Financial Institutions Act to enhance bank supervision and resolutions, including compliance with AML/CFT in accordance with best practices.

We welcome the government's launch of the Pro-Poor Agenda for Prosperity and Development (PAPD) focusing on structural reforms to improve growth prospects. Liberia's economy has a narrow production base, large structural gap, and 50.9 percent of the population lives below the poverty line. Limited physical and human capital accumulation is the main bottleneck to economic growth. We encourage the authorities to continue to accelerate the implementation of structural reforms centered on achieving macroeconomic stability and improve the business climate to pursue physical capital accumulation. We also encourage the authorities to safeguard social sector spending to ensure human capital accumulation. Fighting corruption by adopting best practices that improve the transparency of the government's operations envisaged in the PAPD would also be necessary. Continued efforts are needed to strengthen data provision and surveillance.

With these comments, we wish Liberia and its people success in their future endeavors.

Ms. Levonian, Ms. McKiernan and Mr. Mooney submitted the following statement:

The economy of Liberia remains fragile with major developmental challenges including weak growth, high levels of poverty, significant infrastructure gaps, and elevated inflation, as well as a reduction in foreign aid over the medium term. We take positive note, as highlighted in the helpful buff of Messrs. Mahlinza and Jappah, of the authorities' efforts to restore macroeconomic stability and boost Liberia's growth potential, and welcome the launch of the Pro-Poor Agenda for Prosperity and Development (PAPD) in October 2018. As we broadly concur with staff's analysis and recommendations, we offer the following additional comments for emphasis.

On fiscal policy, we see the need to strike an appropriate balance between ensuring debt sustainability and safeguarding investment in social and economic infrastructure. In relation to tax policy reforms, we agree with staff that the tax base should be expanded, in tandem with a comprehensive review of tax exemptions and concessions. We note that Liberia's public sector wage bill is significantly higher than peer countries' and concur with staff that a rightsized wage bill is necessary to free up fiscal space to ensure fiscal sustainability and spending efficiency over the medium term.

Further efforts are needed to reduce financial sector vulnerabilities. While indicators suggest that the banking sector appears adequately capitalized, we concur with staff on the need to improve provisioning and underwriting to deal with high NPLs and other risks. In relation to the AML/CFT framework, we agree with staff that this should be upgraded in line with international standards in order to tackle the proceeds of corruption and note the amendments to the Financial Institutions Act (FIA) that are proposed in this regard.

We welcome the review undertaken by the authorities, in conjunction with the Business Climate Working Group, regarding the identification of reforms that will bring the greatest benefits to the business environment. We agree with staff on the need to build capacity to develop social programs, especially those that target the poorest in society while being cost-efficient. We support staff's prioritized recommendation that the anti-corruption legal and institutional framework needs to be upgraded and implementation should be significantly enhanced. Finally, we welcome staff's suggestion on more flexibility in the modality of TA, which may improve the capacity to absorb and benefit from TA going forward.

Ms. Mahasandana, Mr. Mahyuddin and Ms. Susiandri submitted the following statement:

We thank staff for the comprehensive report and Mr. Mahlinza and Mr. Jappah for their informative buff statement. Liberia is facing many macroeconomic challenges both in the near and medium term. The economy experienced declining growth, significant depreciation on exchange rate, soaring inflation, and weakening external position. Its near–medium term economic outlook is projected to be challenging, with risks tilted to the downside. Given these circumstances, macroeconomic stability should become a priority together with efforts to boost physical and human capital accumulation. We welcome the launch of the national medium-term development plan, the Pro-poor Agenda for Prosperity and Development (PAPD 2019-2023), which will focus on efforts to support recovery and harness sustainable growth potential. We generally support staff's assessment and recommendations and would like to highlight the following points for emphasis.

Fiscal adjustment and reforms focused on the three critical aspects -revenue, expenditure, and financing, - should remain realistic and avoid policy slippages. We agree with the staff recommendation that the authorities must continue its effort to mobilize domestic revenue through tax policy reforms, amidst further decline in aid. In this regard, we welcome the authorities' effort to launch a Domestic Revenue Mobilization Strategy. Close monitoring on the implementation of this strategy is key. We also share staff's views to rationalize the wage bill to create more fiscal space. At the same time, we acknowledge the effort by authorities to rationalize salaries of public servants in the high-income bracket and the introduction of hiring freeze. We encourage authorities to remain anchored on a sustainable debt level over the medium-term and welcome authorities plan for all new development projects to be financed using grants and concessional financing and the cancelation of loans that would have led to debt sustainability breaches. Lastly, we commend the authorities' commitment on Public Financial Management (PFM) reforms to improve fiscal management.

Eliminating central bank financing to the government, enhancing monetary operation, and improving institutional arrangements are critical to restore macroeconomic stability. We share staff's view that CBL should stop issuing foreign credit to the government. Instead, government should source the financing from the domestic market. We welcome staff's comments on how to prevent the potential risk on exchange rate depreciation once the government buy US dollar from the market. We are encouraged by the progress of amending the CBL Act, which include critical provisions such as restriction of CBL lending to government. We also welcome authorities' new monetary policy framework, with the introduction of CBL bills; implementation of Standing Deposit Facility (SDF) and Intra-Day Liquidity Facility (ILF); and renewal of guideline for Standing Credit Facility (SCF) if preconditions are fulfilled to ensure the effectiveness of the policy. We take note on staff recommendation on the surrender requirement to be temporary and for the foreign currency acquired from surrender requirements to be returned to the market through auction. We also acknowledge authorities' commitment for the measure to be removed once foreign exchange inflows improve.

Structural reforms to enhance business climate are essential to improving competitiveness and addressing Liberia's weak external positions. In this regard, we support authorities to reinforce structural reforms to improve the ease of doing business that bring benefits to business environment and boost country's competitiveness. We also support staff's recommendation for the authorities to facilitate the depreciation of Liberian dollar REER by reducing inflationary pressure through fiscal and monetary tightening. We welcome staff's advice for greater flexibility in fuel prices to prevent fuel shortages. However, such adjustment should be done in a gradual and transparent manner and to be supplemented by appropriate mitigating measures to avoid adverse effects from sharp changes on fuel price. Removal of the blanket fuel subsidy can be channeled toward more targeted subsidies that alleviate poverty and aid small producers.

Having had tightening macroeconomic policy and fuel price flexibility recommendations, we would appreciate if staff could elaborate on how authorities can mitigate potential risk, coming especially from deteriorating investor confidence, given the sharp decline in economic growth (-1.4 percent in 2019 under reform scenario) amidst relatively high inflation (18.5 percent in 2019) in the short run.

We believe that maintaining financial stability would underpin macroeconomic stability. We encourage the authorities to accelerate the implementation of CBL Action Plan to strengthen the legal framework of banking supervision and resolution. Furthermore, we also share staff's view to set-up financial market infrastructure to support the effectiveness of the new monetary policy framework.

With this remark, we wish the authorities every success in their policy endeavors.

Mr. Inderbinen and Mr. Danenov submitted the following statement:

We thank staff for a comprehensive set of papers and Messrs. Mahlinza and Jappah for their informative buff statement. We are encouraged by the continued focus of the authorities on poverty reduction and their willingness for further close collaboration with the Fund. At the same time, we take note of the weakened growth, rising inflation and decreased buffers, which all reflect the multitude of deeply rooted challenges that Liberia is facing. The delay in the implementation of the majority of key recommendations of the 2018 Article IV consultation causes concern.

Fiscal consolidation remains the key challenge. A strengthened fiscal position is needed to ensure debt sustainability and create space for the investments and expenditures called for by the Pro-Poor Agenda for Prosperity and Development. We encourage the authorities to persist with efforts to mobilize domestic revenue, including via improved tax administration. On the expenditure side, we welcome the measures to contain the wage bill. It will also be important to safeguard social spending, including on elementary education.

We agree with staff on the need to strengthen the safeguards framework of the central bank. We agree with staff on the importance of a timely passage of the amendments to the Central Bank of Liberia Act to strengthen the internal controls and governance of the CBL, to ensure its operational independence, and to restrict lending to government. Also, the CBL should reconsider the surrender requirement for remittances, and we are encouraged to learn from the buff that the authorities view this as a temporary measure. We take good note of the recently introduced monetary policy instruments, but caution is clearly required in the issuance of CBL bills as long as the cost is not borne by the state budget.

We call on the authorities to step up efforts to fight corruption and improve the business environment. Improved governance would be critical for the private sector to develop and contribute to enhancing the countries' growth prospects. We welcome the recent initiatives to this end, such as the launch of the Business Climate Working Group and the passing of the new Land Rights Act.

TA should be provided according to results-based management. We appreciate Annex IX on capacity building. We note the intensive provision of TA. Given the mixed track record of the implementation of past recommendations, we urge the authorities to foster the conditions that would allow for a more efficient absorption of TA. Has the Capacity Building Framework contributed to more targeted and effective assistance in the case of Liberia?

Mr. Sigurgeirsson and Ms. Karjanlahti submitted the following statement:

We thank staff for the comprehensive report and Mr. Mahlinza and Mr. Jappah for their informative BUFF Statement. The significant weakening of the macroeconomic situation in Liberia raises concerns. Large revisions to growth and the inflation outlook are undermining debt sustainability and increasing already elevated poverty rates. Staff's baseline offers even worse prospects, if stabilization efforts are not undertaken. We strongly encourage the authorities to take up the reforms proposed in the previous Article IV report. Avoiding further deterioration and restoring macroeconomic stability are a precondition for addressing pressing development needs. We support the staff appraisal with the following points for emphasis.

Establishing credibility for fiscal management to eliminate Central Bank borrowing will be critical for stability. To avoid a more abrupt adjustment scenario, the fiscal stance will need to be brought in line with declining external assistance and moderate revenue expectations. A key component will be to take control of the growing wage bill, that was already consuming over 70 percent of domestic revenue in 2018. This will require rightsizing, cleaning up the payroll, registering employees to a single database and regularizing the compensation system. At the same building basic accountability and transparency mechanisms into public financial management combined with efforts to improve revenue collection should allow the authorities to increase the scale and efficiency of development-oriented resources.

Restraint in the use of fx-reserves to fund the government financing gap and the central bank deficit is the first step towards a credible monetary policy. With this precondition, the new monetary policy tools would allow the Central Bank to start tightening the monetary stance in response to rising inflation that is eroding the purchasing power of the poor majority of the population. To establish Central Bank credibility, we strongly encourage the authorities to swiftly pass and implement the new CBL Act that should include improving the independence and governance structure of the CBL, restricting fx-financing for the government and a plan for CBL recapitalization.

The deterioration of the economic outlook is increasing risks related to debt vulnerability. Large infrastructure needs put pressure on financing investments. While we agree on the importance of building physical capital to improve economic opportunities, we strongly encourage the authorities to ensure the sustainability and efficiency of the financing, procurement and implementation of investments. This would entail a realistic assessment of the absorptive capacity and applying principles of good governance. We are encouraged by the government's decision to cancel the two non-concessional loans and only revert to concessional financing. With significant unmet funding needs emerging, even under the reform scenario, we would be interested to hear staff views on the content and prospects related to a possible Fund program.

Despite over a decade of large-scale donor assistance and immense efforts to build institutions and capacity, little remains visible on the ground. Building basic institutions is an obvious goal for Liberia to enable investment, deliver services and improve economic management. Despite over ten years of concerted donor assistance and intensive capacity building efforts results have not materialized. We were surprised to see that, just from the IMF, there were nearly 50 technical assistance missions to Liberia over the past year. This amount would exceed the absorptive capacity of most developing countries. When adding all other donor assistance, the coordination challenges, for all, parties must be demanding. Despite this intense technical assistance effort, significant slippages have occurred and not one recommendation from the 2018 Article IV report has been implemented. Could staff please elaborate on the outcomes from the capacity building efforts given to Liberia? In addition, we would be interested to hear how the Fund manages coordination challenges both internally and with other development partners.

Mr. Castets, Mr. Ronicle, Mr. Bellocq and Ms. Stockill submitted the following joint statement:

We thank staff for the informative reports and Mr. Mahlinza and Mr Jappah for their clear buff statement.

The Article IV report sets out a concerning picture of policy slippages, high inflation, and disappointing growth performance. Last year we welcomed Liberia's first democratic transition of power, and the new administration's Pro-poor Agenda for Prosperity and Development (PAPD). However the authorities have faced a challenging task in pursuing this ambitious development agenda whilst simultaneously safeguarding macroeconomic and debt stability. The needs in Liberia are huge: poverty rates are over 70 percent in rural areas, and only 5 percent of roads are paved, leaving communities isolated from economic centers, health and education facilities. However, without policy change, there is a risk of a disruptive adjustment that would undermine the authorities' development objectives and likely hit the most vulnerable hardest. Have there been any discussions of a return to a program relationship to anchor necessary macroeconomic reforms? If the reform scenario prepared by staff was used as the basis for an IMF-supported program, could staff further elaborate on how to make this scenario and associated program socially sustainable? If there was a return to a program relationship, we would like staff to provide further detail on the redistributive impacts of any fiscal consolidation path.

We agree with staff recommendations regarding realistic budgeting, increasing revenue mobilization, and ceasing borrowing from the Central Bank of Liberia (CBL). We think that staff advice is pragmatic and well-balanced, focusing on issues that should be deliverable in the near term, for example expanding the base for existing taxes and addressing exemptions (before moving on to larger VAT reforms). Could staff indicate the tax expenditure in percentage points of GDP which is associated with exemptions? Like staff, we think the issue of ghost workers on the public payroll and high levels of discretionary allowances should be tackled. We do not underestimate the political will that such reforms require, so it is vital that these issues are addressed at this point in the electoral cycle.

Liberia has moved closer to the threshold for high risk of debt distress, and is at a critical juncture if borrowing is to remain on a sustainable path. We were concerned by the opaque contracting of external loans totaling $957.2 million in 2018, as well as reports of potential natural resource swaps. We encourage the Liberian authorities to focus on concessional borrowing, with appropriate and transparent scrutiny of all loans to ensure they focus on growth-enhancing investments and are not on disadvantageous terms for Liberia. Given these issues, and the authorities' ambitious infrastructure investment plans, have staff considered any further follow-up to Liberia's 2016 Public Investment Management Assessment? How do staff intend to continue their technical engagement on debt statistics going forward?

We welcome the comprehensive coverage of governance and corruption issues in this Article IV report, and we urge the authorities to follow through on their anti-corruption commitments. This is an issue of particular concern for the private sector and potential investors in Liberia, as demonstrated by the results of the 2017 World Bank Enterprise survey. We also stress the importance of addressing governance and control issues at the CBL, including the restoration of term appointments. This is critical if the CBL is to play an appropriately autonomous role.

We welcome the introduction of a new monetary policy framework which paves the way to an interest rate-based monetary policy. To be effective, this framework has to be deployed without fiscal dominance and state funding from the CBL. Against this background, we concur with staff advice on monetary tightening, whilst suspending the use of US dollar-index bills until the fiscal financing gap is closed without CBL financing. Under current circumstances the use of CBL bills risks being both ineffective and expensive.

Mr. Villar and Mrs. Suazo submitted the following statement:

We thank staff for its informative report and Mr. Mahlinza and Mr. Jappah for their helpful buff statement.

The outlook for Liberia is challenging not only because of significant macroeconomic vulnerabilities (low growth, high inflation, high exchange rate depreciation) but also because of its high poverty rate (50.9 percent of the population lives below the poverty line), narrow production base, limited physical and human capital and significant infrastructure gaps. We agree with the staff's appraisal and make the following comments for emphasis.

We take note of the steps authorities are taking to accelerate economic growth and stabilize the macroeconomy through the implementation of prudent fiscal, monetary and structural policies, and the launch of the Pro-Poor Agenda for Prosperity and Development. In addition, they are committed to mobilizing additional fiscal resources, cutting non-productive recurrent spending, eliminating borrowing from the Central Bank and avoiding reliance on high-cost external financing. However, we urge the authorities to fast track their policies, particularly regarding fiscal consolidation and rightsizing the wage bill. The authorities mention that their efforts will be complemented by those of the international community but since the staff reports indicate a financing gap exists even in the reform scenario, could staff provide an update on the advances made by authorities regarding international cooperation?

Due to the capacity constrains faced by the Liberian authorities, which affect data quality and hamper surveillance, TA recommendations with prioritization and proper sequencing will be fundamental. Although Liberia is one of the highest recipients of Fund TA, the country's absorption capacity has limited its efficiency. Staff recommends more flexibility in the modality and areas of TA activities to improve this. Staff details various areas and recommendations for TA going forward and we hope that these recommendations are considered by the respective Departments within the Fund so to make better use of CD resources for Liberia.

We commend authorities on the establishment of the Business Climate Working Group as well as on the enactment of the Land Rights Act as both are important steps for improving business environment. As highlighted in the buff statement, they also issued an Executive Order to reduce administrative and processing requirements for businesses, concessionaries, and real property owners, and abolished the import permit declaration system. Could staff give more information on the benefits of these measures?

Liberia has benefitted from Fund programs before and authorities have signaled their intentions for an ECF. Could staff provide an update on this?

Mr. Sun and Ms. Cai submitted the following statement:

We thank staff for the informative reports and Mr. Mahlinza and Mr. Jappah for the helpful buff statement. While economic growth in Liberia recovered in 2017, the near- and medium-term outlook seems worse than projected since last year. We broadly agree with the thrust of staff's appraisal and would like to limit our comments to the following for emphasis.

Enhancing revenue mobilization is critical to ensure debt sustainability given the declining trend of aid flows. The huge infrastructure gap is undermining the efforts in unleashing the economic potential, and financing is one of the major challenges facing the authorities. We encourage the authorities to continue improving revenue collection, including by strengthening compliance with the existing rules. In the absence of strong policy action, the increase of domestic revenue is only enough to offset the decline in external assistance. In this context, steadfast implementation of the tax policies and expenditure reforms should be a priority on the authorities' agenda. Meanwhile, fiscal transparency and accountability play important roles in improving spending efficiency, and we encourage the authorities to push forward with the governance reforms. While we share staff's concern that over-reliance on high-cost external loans could increase debt vulnerability, we take note of staff's suggestion to rely on the domestic private sector to fill the financing gap. Considering decreasing external assistance, high NPL ratio which constrains lending capacity, and large financing needs for development, to what extent do staff think funding from the domestic private sector will address the financing gap?

Modernizing the monetary policy framework is essential to improve the effectiveness of monetary policy implementation. We welcome the introduction of the new monetary policy framework, but the increased claims of the central bank on the government in the last two years remains a concern. To address the governance issues and strengthen institutional frameworks, we agree with staff that government borrowing from the central bank should be eliminated and the central bank's operational independence needs to be improved. To facilitate central bank reform, a prudent fiscal policy should be in place. Given the significant challenges the central bank is facing, especially in the areas of operations, technical assistance needs to be comprehensively planned and provided.

More efforts are needed to safeguard financial stability and enhance the resilience of the banking system. Although the level of non-performing loans (NPLs) has declined to some extent, the high ratio of NPLs to total loans in 2018 deserves greater attention. Could staff elaborate more on the developments of the framework for NPL recognition?

We welcome the authorities' efforts to improve the investment climate, including the launch of the high-level Business Climate Working Group, and encourage the authorities to continue to advance structural reforms to improve the ease of doing business and boost competition. Given the importance of statistics for decision making and the Fund's surveillance, we encourage the authorities to continue leveraging Fund TA to further improve data quality and availability.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Saraiva and Mr. Coronel submitted the following statement:

We thank staff for the report and Merss. Mahlinza and Jappah for their statement. We generally agree with the thrust of the report and would like to share the following comments for emphasis.

High inflation and sluggish growth, in a context of widespread poverty, pose huge challenges for Liberia. The democratic transition that took place a little more than a year ago was auspicious and the new administration embraced an ample agenda of reforms. That notwithstanding, such a comprehensive and ambitious reform agenda, in a fragile, post-conflict context, may face serious institutional constraints to be effectively implemented. We take notice that the World Bank has approved its country partnership framework late last year, with the purpose to support the government's development plan (Pro-poor Agenda for Prosperity and Development – PAPD). With the withdrawal of the UNMIL and the downsizing of donor support, we wonder whether sufficient coordination among development partners has taken place, in order to tackle such sizeable challenges.

Growth bottlenecks need to be addressed to reverse the subdued outlook. At the time of the last Article IV consultation in June 2018, Liberia's medium-term outlook was deemed positive, but policy slippages amidst structural fragilities, falling commodity prices and scaled down external support led the economy to take a downturn. Last year's growth performance was less than half of staff's initial projection, and GDP growth this year has been revised down from 4.7 to 0.4 percent. Moreover, medium-term growth projection, at 1 ½ percent, is below Liberia's rate of population growth and clearly insufficient to make strides against poverty in the country. We take note of staff's projections associated with the reform scenario (Text Table 1) showing growth contraction in the immediate aftermath (2019), while even in 2020 projected growth would still be lower than in the baseline scenario. Considering the lack of social buffers and the country's fragility, how does staff assess the sustainability of the current strategy? On the other hand, given the major macroeconomic constraints faced by Liberia, how could economic growth be unleashed in the short run without hampering macroeconomic stability?

Fiscal consolidation should proceed, while preserving pro-poor expenditure. The policy advice in the report is generally sensible, focusing on containing the wage bill, increasing domestic resource mobilization (DRM) and anchoring the fiscal framework on the debt stabilizing primary deficit. Considering the information given by Mr. Mahlinza and Mr. Jappah, the authorities are already pursuing a DRM strategy targeting a revenue increase of 3 percent of GDP in the medium run, as well as other fiscal recommendations, including tax administration measures. In the case of the wage bill containment, it appears that the authorities are aware of political sensitivities and have taken a more tentative approach, requesting IMF technical support to assess the possible social costs of some of those measures. Is there an estimate of the gains that will be obtained by the recommended actions regarding the wage bill?

High inflation compromises the purchasing power of the poor and requires a more forceful approach. Headline inflation has climbed to 28 percent by the end of 2018, while the Liberian dollar lost over a quarter of its value throughout the same year. Such an erosion in the purchasing power affects disproportionally the poor, who constitute the overwhelming majority of the Liberian population. We welcome the measures taken by the CBL to improve its monetary policy framework – as described in the staff report and by Mr. Mahlinza and Mr. Jappah in their statement – and call for decisive actions to curtail inflation.

Support from partners remains critical for Liberia to successfully overcome its developmental hurdles. As donor inflows dwindled, the current account deficit in 2018 remained very high at 23 percent of GDP, increasing the pressure on foreign reserves. The presence and support of the donor community will continue to be needed while endogenous capabilities reach a critical mass to spur a faster formation of physical and human capital. The phase out of donor assistance should be gradual and in line with a realistic assessment of conditions on the ground. Meanwhile, we welcome the information that the authorities will refrain from any non-concessional finance and are actually planning to cancel two loans that could jeopardize debt sustainability.

Improving data and analytics should help allocate resources more efficiently. In this regard, we call upon staff to prioritize much needed capacity development and technical assistance to Liberia.

The Acting Chair (Mr. Zhang) made the following statement:

Liberia is a fragile and a post-conflict country. At the time of last year's Article IV consultation, Liberia had just experienced its first democratic transition of power between two different political parties since 1944. That happens to be the year when the Fund and the World Bank were founded. Last year, the United Nations' peacekeeping force, which had been there since 2003, left the country. Since then, the country has launched a development plan known as the Pro-Poor Agenda for Prosperity and Development (PAPD) to take care of the challenges.

Directors have highlighted the importance of taking measures to meet these challenges, which include keeping the fiscal adjustment and the tighter monetary policy stance. Directors also highlighted the necessity of proceeding with these structural reforms to improve governance and the business environment. These are all welcome.

The staff representative from the African Department (Ms. Saito), in response to questions and comments from Executive Directors, made the following statement:[1]

> I would like to make two remarks. First, there were many questions about the status of the country's engagement. Liberia is facing not only long-term challenges but also near-term macro imbalances. The combination of the sharp slowdown in growth and high inflation caused by a depreciation of the currency has eroded the living conditions of the poor. To anchor the reform agenda and address the short- to medium-term challenges, the authorities have signaled to staff their interest in engaging with the Fund in a program context. The staff is currently preparing to visit Monrovia in the second half of June to support the authorities' commitment to achieving their development agenda, the PAPD.
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> There was also great concern expressed in the gray statements on governance. Addressing corruption is one of the main pillars of the PAPD. As highlighted in the buff statement, the authorities have already taken and mapped out the key steps of this agenda.

Mr. Kaizuka made the following statement:

> Since we issued a gray statement, I do not have much to add. But I appreciated the encouraging explanation about a possible future mission for the formulation of an Extended Credit Facility (ECF) program. The country is deeply in need of that support to proceed with the reform.
>
> I would like to emphasize one thing in a program context. I assume that a lot of technical assistance (TA) is flowing into the country and that there is strong demand the TA. But it is important to properly prioritize or allocate TA. If the TA is coming in in large volumes, in a disorderly manner, it may create some confusion in the country, since the authorities lack the capacity to deal with that. I would encourage the staff to play a crucial role in coordinating all the TA activities across departments.
>
> The staff highlighted that there TA on data improvement is a high priority. I encourage Ms. Saito and the team to play a key role in coordinating with functional departments to prioritize and coordinate TA among the TA providers.

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

Mr. Doornbosch made the following statement:

I want to add to the comments made by Mr. Kaizuka, on the importance of TA and making sure this is well targeted. In that respect, in the staff report and in the answers to technical questions, there was a mention of the domestic revenue mobilization strategy of the Government of Liberia. In that context, the staff mentioned that this was a proposal, or a set of studies to identify measures, whereas the staff's own TA was perhaps of more immediate use for the government. It seems important that these two—this government-owned domestic revenue mobilization strategy and the staff's TA—should fit together closely. I can imagine that, if there are no concrete measures yet in the domestic revenue mobilization strategy, that the staff's TA should account for that, but it is important to make sure that these two start to fit together in program negotiations.

A second question is on nonconcessional financing. As I understand it, the authorities do not rule out this option, whereas it seems that maybe it would be better to rule this out. Could the staff comment on that? What is the staff's perspective on this?

Finally, we read that there is an overhaul being planned of the leadership of the central bank. That might be a good thing. It might be a bad thing. I would be interested in the staff's perspective on this in the context of Liberia.

Mr. Rosen made the following statement:

I also wanted to echo the comments of Mr. Kaizuka regarding coordinating TA. Clearly, Liberia has enormous challenges. There are many donors who are involved in Liberia, and they need to be well coordinated. The Fund needs to be well coordinated with the World Bank and the many other donors as well.

I would also echo Mr. Doornbosch's comments regarding nonconcessional financing. It would be a mistake for Liberia to enter into any nonconcessional financing.

I also wanted to echo other Directors' comments regarding the calls for structural reform to improve the business climate and combat corruption. I wanted to see whether we could encourage the authorities to consider looking for donor funding for the key underfunded institutions that were referred to in the report, such as the Liberia Anti-corruption Commission.

The staff representative from the African Department (Ms. Saito), in response to further questions and comments from Executive Directors, made the following additional statement:

> On the TA and capacity development coordination, this is something staff has been working on for the last few years. The coordination has greatly improved in the last few years, and we envision ourselves to be coordinating further in the context of the program.
>
> With regard to domestic revenue mobilization, the authorities' domestic revenue mobilization strategy (covering a big picture strategy) and the recent TA on specific tax measures and their potential tax yield were closely aligned. Even the Terms of Reference for the TA mission had been modified to fit the strategy and their need. We will continue to work closely both with the authorities and the TA providers.
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> On nonconcessional loans, according to the Debt Sustainability Analysis (DSA) we have presented, there is space to borrow. The authorities have indicated they prefer to work with concessional loans. But given that their concessional resources are limited when it comes to meeting all their development needs, especially on infrastructure development, they are tolerant to the idea. We have to see what a DSA would look like if they were to engage in nonconcessional loans.
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> On the central bank, the governor of the central bank, who came into office last year, will have to meet the mandatory retirement because of his age, and that has been announced recently. We believe there will be a new governor coming into the office in the next six months or so. Moreover, one of the two deputy governors, who has been in place since the last program, has recently resigned. We are now in a situation where both deputy governor positions are vacant and need to be filled. We do not have any more information, but we look forward to working with the new management team once they come in.

The staff representative from the Strategy, Policy, and Review Department (Mr. Fletcher) remarked that it was a useful suggestion that donor funding could fund anti-corruption agencies. He noted that the staff would look for the program to catalyze donor funding across a range of needs.

Mr. Doornbosch asked if it was possible to set limits on nonconcessional borrowing.

The staff representative from the African Department (Ms. Saito) remarked that a ceiling on nonconcessional borrowing would be part of the program, but not necessarily a zero ceiling.

Mr. Doornbosch asked if it was possible to set limits on nonconcessional borrowing.

The staff representative from the African Department (Ms. Saito) remarked that a ceiling on nonconcessional borrowing would be part of the program. But the staff had not examined whether it could rule out nonconcessional borrowing entirely.

Mr. Obiora made the following concluding statement:

> On behalf of my Liberian authorities, I thank Directors for their advice and their support of Liberia's efforts to restore macroeconomic stability and engender debt sustainability in a difficult environment. I also thank management and the staff, especially Ms. Saito and her team, for their constructive engagement with my authorities.
>
> As emphasized in most gray statements, Liberia remains a fragile state with significant economic, infrastructure, human capital, and institutional challenges. In response to these, and with inputs from development partners, the authorities have developed a medium-term national economic agenda, designated as the PAPD. The main goals of this agenda are to address social imbalances, restore macroeconomic stability, improve the business climate, and entrench good governance. My authorities remain committed to fiscal consolidation acting as a key anchor of the policy framework in the near to medium term. They have developed a domestic revenue mobilization strategy to improve revenue collection and address structural deficiencies in revenue management. They are implementing expenditure containment measures, including difficult ones like the rationalization of public sector wages, and have requested TA to support the process. Plans are also underway to redirect critical resources toward priority social spending.
>
> The authorities reaffirmed their commitment to promote economic diversification through strengthening the business environment. They acknowledge that creating such an environment requires a significant investment in infrastructure and are determined to pursue mostly concessional financing and grants for this purpose.
>
> As articulated in our buff statement, the Central Bank of Liberia has taken steps to modernize its monetary policy framework and develop the domestic money market. Signaling better days ahead, President Weah recently

> reiterated the government's resolve to maintain the integrity and independence of the central bank and to discontinue the monetization of budget deficits by the bank. The impending passage of the amended Central Bank of Liberia Act is envisaged to strengthen the bank's governance as part of the implementation of recommendations from a research safeguard assessment by the Fund.
>
> The authorities share Directors' concerns on nonperforming loans. In response, they are implementing several steps, including the better monitoring of loan portfolios, the enhancement of a credit reference system, and high-level discussions to resolve all government-related obligations to commercial banks. To complement these efforts, my authorities are already engaging the staff for a Fund-supported program under an ECF arrangement and have asked for Directors support when this is brought to the Board. They look forward to continued Fund advice and TA, which are critical to the successful implementation of their development agenda.

The Acting Chair (Mr. Zhang) noted that Liberia is an Article XIV member, but no longer maintained any measures subject to the transitional arrangements under that Article, and maintained an exchange system free of restrictions on payments and transfer for current international transactions. No decision was proposed.

The following summing up was issued:

> Executive Directors agreed with the thrust of the staff appraisal. They noted that Liberia is facing major economic challenges and welcomed the authorities' efforts to bolster macroeconomic stability. Directors emphasized that steadfast and well-sequenced policies and structural reforms are essential to enhance macroeconomic stability and promote higher, sustainable, and inclusive growth. They welcomed the authorities' Pro-Poor Agenda for Prosperity and Development (PAPD) and agreed that garnering support from the international community will be important.

Directors emphasized that significant fiscal adjustment is needed going forward. They underscored that efforts should focus on mobilizing domestic revenue and rationalizing spending, especially the wage bill, while securing needed space for social and capital spending. Directors encouraged the authorities to formulate realistic budgets and to implement a sound borrowing plan that ensures debt sustainability, while advocating caution in engaging in non-concessional borrowing. They also called for further progress in public financial management reforms to improve the quality of spending in a resource-constrained environment.

Directors agreed that the Central Bank of Liberia (CBL) should tighten monetary policy with the objective of reducing inflation to single digits by 2021. Directors emphasized that further issuance of CBL bills should be suspended until the cost of the operation is included in the government budget, and the fiscal financing gap is closed without CBL financing.

Directors noted that while the financial soundness indicators show that the banking sector appears adequately capitalized, the CBL should enhance its supervisory efforts. They highlighted the need to prioritize strengthening the CBL's supervisory, regulatory, and resolution frameworks in light of the elevated level of nonperforming loans, focusing on measures that improve loan underwriting standards.

Directors highlighted the need to improve the external position by tightening monetary and fiscal policies, allowing for greater exchange rate flexibility, and raising competitiveness through improvements in the business environment. They welcomed that the authorities' pro-poor agenda focuses on physical and human capital, particularly improving service delivery in health and education.

Directors noted that in the context of the development agenda, aggressive efforts should be made to strengthen governance and reduce corruption. They advised the authorities to upgrade their anticorruption and AML/CFT frameworks in line with international standards.

Directors emphasized that continued efforts to improve the quality and availability of data are essential for Fund surveillance and economic policy making.

It is expected the next Article IV consultation with Liberia will be held on the standard 12-month cycle.

APPROVAL: April 15, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook/Risks

1. Having had tightening macroeconomic policy and fuel price flexibility recommendations, we would appreciate if staff could elaborate on how authorities can mitigate potential risk, coming especially from deteriorating investor confidence, given the sharp decline in economic growth (-1.4 percent in 2019 under reform scenario) amidst relatively high inflation (18.5 percent in 2019) in the short run.

- A commitment on behalf of the authorities to undertake the adjustments detailed in the reform scenario to put Liberia on a fiscally sustainable path and lower inflation, together with an increased resolve to improve the ease of doing business and strengthen governance, would improve investors' confidence in both the medium-term macroeconomic outlook. Investors may be further encouraged if the macroeconomic adjustments encourage greater engagement from the donor community.

2. We take note of staff's projections associated with the reform scenario (Text Table 1) showing growth contraction in the immediate aftermath (2019), while even in 2020 projected growth would still be lower than in the baseline scenario. Considering the lack of social buffers and the country's fragility, how does staff assess the sustainability of the current strategy?

- The baseline scenario assumes that high inflation and depreciation will be persistent and will lead to a forced adjustment within the next couple of years. This scenario is not sustainable and has already proven very costly for the poorest cohorts of the population. The authorities have recognized the need for a macroeconomic adjustment in the short term that can bring inflation and depreciation down and put the fiscal sector in a more sustainable path. The international community stands ready to assist the authorities provided they are committed to make the necessary adjustment and implement an appropriate set of structural reforms.

3. On the other hand, given the major macroeconomic constraints faced by Liberia, how could economic growth be unleashed in the short run without hampering macroeconomic stability?

- See above.

Fiscal Policy

4. The report mentions that the government completed its medium-term revenue strategy in November. Can staff provide more information and share its assessment on this strategy?

- The authorities' Domestic Revenue Mobilization strategy is welcomed. The strategy proposes a set of studies to identify actionable measures that could increase domestic revenue in the short to medium term, but the implementation timeline is not fully clear. However, a recent FAD TA mission focused on the practical task of identifying potential measures to increase domestic revenue in the short term and quantified their expected tax yield, and this may prove of more immediate use to the authorities as they seek to fairly rapidly increase their revenue yield.

5. Can staff provide comments on the revised 2020 budget?

- The authorities are currently working on the FY2020 budget and expect to send it to the National Legislature in mid-June. Based on on-going discussion with the authorities, staff expects the budget to be based on the FY2019 revenue outturn rather than follow their past practice of basing revenue on the last year's budget projection (which proved overly optimistic as a significant share of this revenue did not materialize). Staff also expects the authorities to address to some degree the inflated level of the wage bill, and to make efforts to formulate a credible budget.

6. We would appreciate staff information on the estimated savings that the removal of the identified ghost workers would generate.

- The authorities are updating the database of public sector employees and will share it with IMF staff once it is ready. A previous exercise that focused on the education and health sector showed that the savings from the elimination of ghost workers – although necessary – will be insufficient to achieve the desired rightsizing of the wage bill. The authorities are proceeding with a large wage restructuring exercise, and have requested Technical Assistance from FAD to vet their work. This assistance will probably take the form of a desk review and is expected to start soon.

7. Is there an estimate of the gains that will be obtained by the recommended actions regarding the wage bill?

- Precise estimates are still not available, and a comprehensive reform of the civil service should be multi-year goal. However, Staff estimate that a cut of about 10 percent of the wage bill ($30 million) in FY2020 is needed to have a viable, credible budget under the reform scenario. Ideally, this initial correction should: i) be as equitable as possible to promote acceptance and social stability; ii) safeguard the wage bill of the social sector; and iii) lead to efficiency gains.

8. ***Given the scale of fiscal consolidation, we would appreciate staff's further elaboration on how the proposed composition of fiscal adjustment is consistent with the strong growth recovery projected from 2021onwards.***

- The fiscal adjustment especially on the expenditure side would have to be largely a compositional change from wage bills to other spending (social sector and capital expenditure). Thus, the macro impact from the fiscal adjustment would be limited (the fiscal multiplier used is 0.6). Reductions to the wage bill made next year would be to the base, and so the gains in terms of fiscal space would extend through the medium term. Most of the growth would come from improved investor confidence, the catalytical role of a Fund-supported program, and the higher investment in human and physical capital made possible by expenditure efficiencies and revenue enhancement.

9. ***Could staff indicate the tax expenditure in percentage points of GDP which is associated with exemptions?***

- Tax expenditure is estimated at about 1/3 of domestic revenue.

10. ***We are aware of the authorities' limited absorptive capacity as discussed in Annex IX, but we see value in the payroll reform and urge staff to assist with the authorities' TA request. We invite staff comments on the authorities' absorptive capacity in this area and in terms of traction for policy advice.***

- There have been multiple attempts to reform the civil service in the past decade, but progress has been lower than desirable. However, the authorities are now aware that correcting the current macroeconomic imbalances—manifested in high inflation and depreciation of the currency—will require fiscal adjustment, including rightsizing of the wage bill. They are therefore fully on board with reforming the civil service. They have been initiating the reform independently, but have also requested Technical Assistance from FAD. A desk review is ongoing.

11. ***Considering decreasing external assistance, high NPL ratio which constrains lending capacity, and large financing needs for development, to what extent do staff think funding from the domestic private sector will address the financing gap?***

- The authorities have the possibility of issuing a sovereign, Liberian dollar denominated bond (e.g., excess liquidity in the banking sector could potentially absorb the bond), but at a cost.

12. ***We note that the government signed two loan agreements that it is now trying to cancel and is also seeking to issue a bond to clear domestic arrears. Can staff elaborate and comment on these plans and on implications for debt sustainability?***

- The authorities are in the process of cancelling the two non-concessional loans. However, since the authorities remain tolerant to the possibility of contracting other non-concessional loans if enough funds from traditional donors for infrastructure is not secured, the DSA assumes non-concessional borrowing amounting to about $650 million within the next 5 years.

13. ***In this light, can staff elaborate on potential governance flaws related to the decision-making procedure on approving the two non-concessional loans referenced above? How does staff intend to recommend remedying these flaws?***

- The loans were ratified without following due procurement process, pursued as single source in a noncompetitive procurement agreement, and ratified by the Legislature without enough time for discussion. The international community and local media raised significant concerns and the authorities are in the process of cancelling the loans. Staff has emphasized the importance of transparency in the ratification of loans, and in particular of preserving adequate institutional processes.

14. ***Given these issues, and the authorities' ambitious infrastructure investment plans, have staff considered any further follow-up to Liberia's 2016 Public Investment Management Assessment?***

- Staff have not considered follow-up to the 2016 Public Investment Management Assessment. On-budget public investment has declined significantly in the past two years and Staff has emphasized the detrimental impact that this could have on the authorities institutional knowledge with respect to managing public investment.

Financial sector, monetary, and exchange rate policies

15. ***Can staff provide a state of play of the implementation and an assessment of the effectiveness of the future monetary policy advisory committee?***

- The advisory committee has been formed. The draft amendments to the CBL Act would allow the committee to become a decision-making committee, but the draft amendments are still the process of being reviewed.

16. ***Regarding the uses of USD-indexed CBL bills, the authorities view it as necessary to mop up liquidity outside the banking system, while staff recommend that it***

should be suspended until the fiscal financing gap is closed without CBL financing. Could staff elaborate more on how the authorities' concern could be mitigated?

- The CBL is offering the CBL bills at 7 percent with indexation to the U.S. dollar value at purchase to make it safe and attractive enough for investors to purchase. The nominal interest rate equivalent of this monetary operation is uncertain and could be as high as 27 percent if the exchange rate continues to depreciate at a rate of 20 percent. Staff therefore recommends suspending sales until the cost of the operation is included in the government budget (i.e., not monetized) and the fiscal financing gap is closed without CBL financing. This would help to curtail the present weakness in the exchange rate and improve the inflation outlook. The currency in circulation outside of the banking system will, in the long run, be deposited in the banking sector if confidence is restored, including through banks beginning to offer deposits rates that reflect the positive-in-real-terms rate of return on the central bank bills.

17. We welcome staff's comments on how to prevent the potential risk on exchange rate depreciation once the government buy US dollar from the market.

- The impact of government purchases of foreign exchange will depend on how the government sources local currency to carry out these purchases. If the government issues securities in local currency to fund FX purchases, then the monetary impact would be contained. If, however, the central bank continues to finance the government, then there is likely to be continued exchange rate depreciation. Eliminating central bank financing to the government both in local and foreign currency is crucial to lowering the inflation profile.

18. Additionally, there are significant weaknesses in central bank safeguards, physical security, governance, and internal audit. This is a critical and urgent area for reform where technical assistance from the international community can be helpful. Can staff elaborate on any ongoing efforts by the authorities to address these weaknesses, how central bank reforms can best be sequenced, and any ongoing and/or proposed technical assistance?

- The CBL has requested a TA on cash currency management (i.e., everything relating to printing, distribution / logistics, vault storage, invalidation and destruction) and staff is preparing for the TA in the near future. In parallel, it is important to strengthen the governance of the central bank, taking into consideration the conclusions from the recent Kroll report regarding allegations of the disappearance of Liberian Dollar banknotes. The oversight role of the Board of the central bank should also be strengthened to ensure compliance with internal policies and regulations.

19. ***Going forward, deepening financial inclusion is critically important to support sustainable growth. We welcome staff's comments on the recent progress and the authorities' plans in this area.***

- It is estimated that about a third of the adult population now has access to formal financial services. The CBL is supporting the digitization of the Liberian economy by formulating and implementing policies aimed at promoting electronic payments platforms and channels, including ones allowing direct transfer, via mobile phone, from bank accounts to mobile money accounts. In addition, the CBL is working to fully operationalize a credit reference bureau with a biometric identification feature to uniquely identify customers of the financial institutions—with the aim of improving the credit environment, stopping fraud, lowering costs of intermediation, and broadening access to credit at the micro and small enterprise levels.

20. ***Could staff elaborate more on the developments of the framework for NPL recognition?***

- As recognized in the CBL Action Plan established in November 2017, the CBL views amending the Financial Institutions Act (FIA), and introducing operational guideline on bank resolution, as priorities. That said, the CBL has devoted significant resources to amending the CBL Act in the past year and a half. A desk review of the FIA has been completed and the relevant TA for further work in this area is in the resource allocation plan (RAP) for FY2020.

Structural reforms and statistical issues

21. ***We take notice that the World Bank has approved its country partnership framework late last year, with the purpose to support the government's development plan (Pro-poor Agenda for Prosperity and Development – PAPD). With the withdrawal of the UNMIL and the downsizing of donor support, we wonder whether sufficient coordination among development partners has taken place, in order to tackle such sizeable challenges.***

- A very significant degree of coordination exists among donors regarding Liberia. However, there is a limit to what donors can accomplish in the absence of a concerted government policy to tackle the pressing macroeconomic and structural problems faced by the country. Fortunately, there are clear signs that government is increasingly aware of the policy imperatives it faces. A staff team will visit Liberia in June to discuss, among other things, their economic program for the period ahead.

22. ***As highlighted in the buff statement, they also issued an Executive Order to reduce administrative and processing requirements for businesses, concessionaries, and***

real property owners, and abolished the import permit declaration system. Could staff give more information on the benefits of these measures?

- The cost of doing business in Liberia is high, with much of this related to administration and import costs. (i) Reduction in administrative procedures are expected to lower costs and delays, creating greater efficiency in production, and higher employment, investment, and growth. (ii) The abolishment of the import permit declarations will allow importers to import whatever goods they feel are in their economic interest, rather than having to justify why such imports are necessary to the Ministry of Commerce. Significant efficiency gains are thus anticipated, along with establishment of greater competition in key markets. (iii) The Land Rights Act is potentially a big step forward in releasing the productive potential of Liberia's agricultural sector. The country has large, exploitable, and sparsely inhabited tracts of land that would serve very well for large-scale cash crop production. In the past, the difficulty in securing clear title has held back this potential. The new Act mandates a participatory methodology for securing land rights, voluntarily, from traditional holders that would result in unambiguous tenure. The potential is large, but the Act has still to be operationalized through the drafting and adoption of relevant regulations and guidelines.

23. How do staff intend to continue their technical engagement on debt statistics going forward?

- To increase accuracy of debt statistics, staff has been coordinating more closely with key donors lending to Liberia in an attempt to better monitor debt stock and debt service. Moreover, jointly with the World Bank, staff has provided hands-on training on the debt sustainability framework during recent missions.

Capacity building

24. Has the Capacity Building Framework contributed to more targeted and effective assistance in the case of Liberia?

- The Capacity Building Framework has contributed to improve traction of technical assistance, but absorption capacity challenges remain. Greater flexibility to respond to and well align with the changing nature of CD needs could further improve the efficiency of the use of CD resources going forward. Aligning TA and training activities with surveillance and/or Fund-supported program has much improved with information sharing and enhanced coordination across experts in the field, HQ back-stoppers, and country teams. More flexibility in the modality and areas of TA activities to respond to the changing nature of CD needs could further improve the efficiency of the use of CD resources going forward. Moreover, greater coordination among donors, as well as enhanced communication among TA providers and TA recipients and donors could also improve the effectiveness of CD.

25. Could staff please elaborate on the outcomes from the capacity building efforts given to Liberia?

- The level of CD provided to Liberia may be appropriate on the needs basis and topics covered, but not necessarily on the basis of absorptive capacity. The CD strategy is fully aligned with the Resource Allocation Plan (RAP). However, despite the allotted resources, traction on CD has generally been low, partly because of capacity constraints to implement the array of recommendations provided by the TA experts. Although priorities are well-aligned within each sector (fiscal and monetary), TA needs in statistics remain high and unmet and cross-sectoral distribution can improve.

26. In addition, we would be interested to hear how the Fund manages coordination challenges both internally and with other development partners.

- Staff is working closely with TA providers (both from HQ and Afritac West 2) to increase coordination, prioritization of TA delivery, and follow up of key recommendations. Coordination challenges within the IMF have been much reduced in the past few years. With regards to development partners, staff is working closely with them both in HQ and also in the field. Staff share the planned and outturn of TA activities with the development partners to enhance coordination. But this effort is not always reciprocated by development partners.

27. High quality data is essential for Fund surveillance and economic policy making. While recent efforts to improve classification of monetary and fiscal data with the support of the Fund's technical assistance (TA) are encouraging, further improvements are also needed in Government Financial Statistics, including the coverage of financial statements of the State-Owned Enterprises (SOEs). Against this background, we would like to know how staff see adequacy of TA in this field and possible measures to enhance the effectiveness of TA and ensure proper prioritization to be in place.

- The most recent Resource Allocation Plan (RAP) for capacity development is in line with the country's priorities and takes into account absorptive capacity constraints. However, Liberia will benefit from greater flexibility in the modality and areas of TA covered, and greater resources for statistics related issues would be beneficial.

Fund engagement

28. ***Are there any measures which could play a catalytical role for reversing the declining external assistance?***

29. ***The authorities mention that their efforts will be complemented by those of the international community but since the staff reports indicate a financing gap exists even in the reform scenario, could staff provide an update on the advances made by authorities regarding international cooperation?***

30. ***We invite staff's comment on a program prospect so far – i.e. is there any program request/interest from the authorities.***

31. ***We would appreciate an update from staff on prospects for a program and the key conditions Fund staff will be seeking in consultation with the authorities. Given that Liberia recently had an Extended Credit Facility, we would be interested in any lessons learned and how they could be integrated in a new program.***

32. ***We note that Liberia faces a financing gap, even under the reform scenario described by staff, and that current on and off budget resources will be insufficient to finance the Pro-Poor Agenda for Prosperity and Development ('PAPD'). In this context, we wonder whether further Fund engagement – notably through a program – is being considered.***

33. ***Liberia has benefitted from Fund programs before and authorities have signaled their intentions for an ECF. Could staff provide an update on this?***

34. ***With significant unmet funding needs emerging, even under the reform scenario, we would be interested to hear staff views on the content and prospects related to a possible Fund program.***

35. ***Have there been any discussions of a return to a program relationship to anchor necessary macroeconomic reforms?***

36. ***If the reform scenario prepared by staff was used as the basis for an IMF-supported program, could staff further elaborate on how to make this scenario and associated program socially sustainable?***

37. ***If there was a return to a program relationship, we would like staff to provide further detail on the redistributive impacts of any fiscal consolidation path.***

- As indicated in BUFF/ED/19/58, the authorities have signaled a desire to negotiate an extended credit facility (ECF) arrangement with the Fund to anchor the reform agenda presented in the PAPD and address the short- to medium-term macroeconomic challenges. Staff will be mindful of the social aspect of the macroeconomic adjustment.

- Staff has been preparing for the mission, and is planning to visit Monrovia in the second half of June.