Liberia

Recent macroeconomic and financial developments

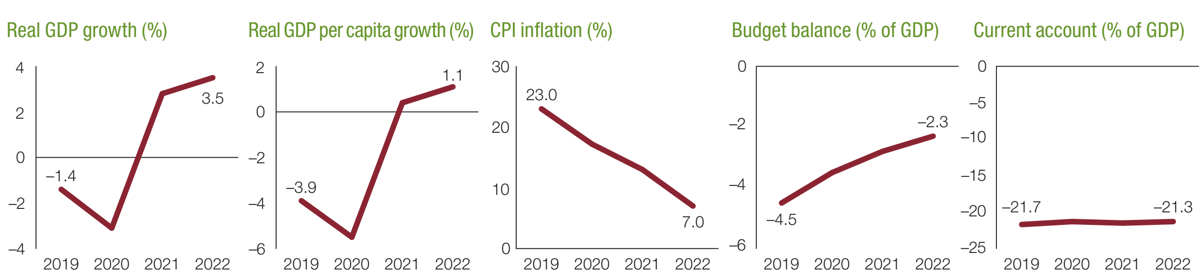
Real GDP was estimated to contract by 3.1% in 2020, its third year of decline in the past five. The 2020 result reflects a pandemic-induced reduction in external demand for its major exports. Domestically, the service sector, particularly wholesale and retail trade, and the hospitality industry were the hardest hit. Inflation was estimated to decline to 17.2% in 2020 from 23% in 2019 on account of subdued aggregate demand caused by pandemic-related containment measures. The fiscal deficit was estimated to narrow to 3.5% of GDP in 2020 compared with 4.5% in 2019 as the government limited expenditures to available budgetary resources in line with International Monetary Fund's (IMF's) Extended Credit Facility (ECF) program. The current account deficit was estimated to narrow to 21.3% of GDP from 21.7% because of a lower oil import bill. Gross official reserves declined to 2.3 months of import cover at the end of June 2020 from 2.4 months a year earlier. Declining reserves prompted a 2.6% depreciation in the exchange rate from LRD 193 per US dollar in June 2019 to LRD198 per dollar in June 2020. Public debt increased to 49% of GDP at the end of September 2020, compared with 38% of GDP in September 2019—an increase attributed to government borrowing from the Central Bank of Liberia (CBL). Since December 2019, Liberia has been implementing the IMF's ECF program, which aims to create a sound macroeconomic policy environment and to address underlying structural bottlenecks.

Outlook and risks

In 2021, real GDP growth is forecast to rebound to 2.8% due to increased demand for Liberia's key exports of iron ore, gold, diamond, and rubber—assuming major importing countries in Europe and Asia cope with the COVID–19 pandemic. Inflation is projected to decline to 13%, the exchange rate to stabilize, the fiscal deficit to remain below 5% in the medium term, and the current account deficit to narrow on the back of continued adherence to fiscal discipline and tight monetary policy that is aligned with the IMF's ECF program. Downside risks to the outlook could emanate from high vulnerability to external shocks and prolonged COVID–19 pandemic.

Financing issues and options

As part of the ECF program, the government has committed to debt rules, which among other things, limit external borrowing to concessional terms and require reduced domestic borrowing from the central bank. This approach is supported by the ongoing implementation of Domestic Resource Mobilization Strategy, which aims to increase domestic revenues by expanding the revenue base and minimizing tax losses, and to financial deepening and capital market development. These efforts may not be enough to create the fiscal space needed to support a resilient recovery. Policy options for increasing fiscal space could include anchoring fiscal policy on debt sustainability, deepening the financial market to enhance private financing, and seeking external assistance in debt relief, debt service suspension, debt restructuring, and concessional loans in the immediate term to create fiscal space.



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team. Data on the budget balance correspond to Liberia's fiscal year, which runs from July 1 to June 30.