POLICY BRIEF

Liberia Economic Situation

Changing Prices and tax rate, Exchange Rate Fluctuations and Public Reactions

An analysis of and reflection on the problem, implications, and policy options

(A contribution of the UN in Liberia to ongoing policy debate on the Economy)

Drafted by the Strategy and Policy Unit, UNDP, February 2017

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1. Executive Summary

Liberia's recent fiscal consolidation measures - cuts in government spending and tax increases aimed at cutting fiscal deficits have been seen by the public as additional burden that adversely affect their welfare. The measures have led to public protests threating political stability.

Liberia's current economic challenges stem from the twin shocks- the Ebola Virus Disease (EVD) and collapse in the international prices of key export commodities in 2014/2015, which hit an economy with limited macroeconomic resilience. The crises led economic growth to decline from 3.9% in 2013 to negative 0.5% in 2016- the third straight year of near zero growth. This constrained the fiscal situation at a time when there are significant expenditure pressures for the preparation of the upcoming general elections in October 2017, taking up national security responsibilities following UNMIL drawdown, and on-going priority projects. The country's debt has grown rapidly over the last three years, notwithstanding the US$4.1 billion debt cancelations in 2010. Liberia's debt stock was 41% of GDP at end 2016. The country's debt rating has risen from "low" to "moderate" risk of distress limiting its capacity to borrow. Donor funding (project and programme grants) has also reduced significantly reflecting changing donor dynamics.

In order to raise revenue as well as conform to the WTO and migration to the ECOWAS Common External Tariff (CET), through an act of the National Legislature in December 2016, amended the Liberia Revenue Code 2000 (last amended in 2011). The amendment makes far-reaching changes including, increasing the goods and services tax (GST) rate from 7% to 10% for all goods and services and introduction of excise tax on mobile telephone usage of one cent US$ per minute. The tax amendments have imposed significant burden on the consuming public and companies operating and investing in Liberia through high prices of essential goods as well as cost of doing business and led to the public protests.

The economy is not diversified, import-dependent and is highly dollarized (US dollar share of broad money at 70%). With limited external buffers (due to reduced export proceeds, decline in donor inflows, drawdown of UNMIL-major spender and contributor of forex, high US dollar-denominated expenditure in the context of high levels of dollarization) the CBL's ability to intervene to stabilize the exchange rate has been limited leading to the depreciation of the Liberian Dollar (LRD) by around 22% between 2015 and January 2017. This in turn has led to inflationary pressures with inflation rising from 8% in December 2015 to 12.2% in December 2016 placing significant burden on the poor and the vulnerable. A further factor is that the real exchange rate in Liberia remains overvalued as reflected in the large, persistent trade and current account deficits on the balance of payments. The real appreciation continued over the period 2014 to 2016 with the exchange rate depreciating 12.4%[1] against the US dollar while the price level rose 27.7%.

Linked to the above are a number of other development **issues/ challenges** in Liberia, including;

- The near zero GDP growth in the last three years is insufficient to have significant impact on poverty;

[1]It is important to not only to focus on nominal exchange rate but on the real exchange rate as well. The latter reflects Liberia's international competitiveness.

- The economy is less diversified and dominated by a few sectors constraining the efforts to achieve sustainable inclusive growth and macroeconomic resilience;
- It is highly import dependent, making it vulnerable to external shocks, including fluctuations in commodity prices coupled with low overall productivity in the economy
- Low overall productivity in the economy;
- The country is launching itself into the WTO and ECOWAS CET which place restrictions on the policy space, including adherence to the rule-based trading;
- Launching into a set of new global development agenda (SDGs) with unfinished MDG agenda, reflecting weak initial conditions, with expectations of relying on domestic financing amid a rapidly growing debt stocks with limited borrowing space;
- High costs of electricity, which raises the cost of doing business;
- Although the country has made significant progress in reducing poverty (national poverty line) by 10 percentage points (from 64% in 2008 to 54% in 2014) buoyed by about 10 years of strong GDP growth, it is still stubbornly high, impacting negatively;
- The rate of vulnerable employment is high at 74.1%, while 2.8% of the population is extremely poor. The socio-economic situation is even dire in the rural areas compared to the urban, with more rural people than urban, vulnerably employed (85% compared to 65%) which means that just 15% of those employed rural dwellers have secure jobs. Although the income poverty is 54%, 70.1% of the population are multi dimensionally poor, reflecting multiple deprivations in education, health and living standards;
- At least half of the population is still haunted by food insecurity;
- Weak health system and poor quality of education;
- Although there have been improvements, Liberia’s Human Development Index (HDI) value for 2014 is 0.430— which put the country in the low human development category— positioning it at 177 out of 188 countries and territories reflecting deprivations in health, education and income.
- The country is experiencing climate change effect with declining water levels leading to shortages of and increasing cost of water;

Policy makers are weighing their responses and in particular on how to deal with the dilemma of simultaneously reducing the fiscal deficits while cushioning the short-term effects of the austerity measures and depreciating exchange rate.

The Economic Management Team (EMT) has commissioned an immediate review of the recent amendments to the Liberia Revenue Code with a view to correcting provisions that are inconsistent with the requirements of the ECOWAS CET regime, which allows a 3-year accession window. This is expected to reduce the tax burden placed on the business community and the consuming public. The EMT and cabinet has also mandated the CBL to review the alarming situation of capital flight and strengthen its regulatory measures so as to curb the illicit repatriation of foreign currency from the country. CBL has also taken some steps such as requiring disbursement of 25% of inward remittances in local currency. The basic question is whether these policy choices will help or hinder the economy.

A study commissioned by the UN in collaboration with other partners, has examined the problems, analyzed their implications from a human security perspective and identified policy options. The paper examines the recent tax amendment measures to determine their impact on peace and stability of the country, their implications for human security, and the overall impact on the UN’s programming in Liberia. The key **issues delved into are: the impact of the**

increases in the taxes on account of the new tax amendment act and supporting port clearing procedures, monetary and exchange rate policies to address the inflation and depreciation of the LRD, concern about dollarization, and low level of economic diversification.

It attempts to synthesize and tease out the key policy problems and policy options using triangulation of approaches, including event studies, comparative analysis and expert opinions. As a result, the key policy problems are:

a) ***How does the GoL ensure that the amendments of the LRC yield significant tax revenues to finance the 2016/2017 budget while minimizing the unfair burden being placed on the consuming public and business community?***

b) ***How does the GoL ensure simultaneous achievement of the objectives;***

   - ✓ ***Ensuring exchange rate stability in the face of limited international reserves and***

   - ✓ ***How does CBL achieve gradual de-dollarization without stimulating capital flight and driving the dollarized economy underground?***

The key conclusion is the need to focus more closely on improving macroeconomic management by tackling the root causes of the economy's problems rather than treating the symptoms. A number of factors have been at play including the drawdown of UNMIL, a major spender and a contributor of FX, political transition and uncertainty scaring away investors, and regional factors with weakening of major WAMZ currencies and Liberia's susceptibility to external shocks.

The summary of **recommendations** is the following:

- GoL should continue to revise the provisions of the 2016 amendments of the LRC as well as devising other options to close the financing gap; but phase in the implementation so as to reduce the tax burden and hence the potential for political instability;
- GoL should pursue a policy to build the stock of international foreign exchange reserves in order to enable the CBL ensure exchange rate stability and thus price stability.
- *Gol* should pursue a gradual reversal of dollarizing without stimulating capital flight and driving the dollarized economy underground by taking a phased approach to the issue. The current transactional approach with regards to remittances may be extended to loans and salary disbursements in the same percentage (25%).
- Efforts to expand financial inclusion will reduce the currency outside banks and thus improve the efficacy of the monetary policy by the CBL.
- With limited growth expected in iron ore and rubber sectors in the coming years, Liberia should actively promote economic diversification, including by increasing value addition in the agriculture sector.
- Ensure a greater orientation of the results-based budgeting and allocations linked to the realization of nationally agreed development parameters.
- In this regard, everyone must make a sacrifice: streamlining exemptions to curb potential abuse and leakages; cuts in incentives and travel spending; suspending the purchase of vehicles unless absolutely necessary, reducing maintenance and repair costs

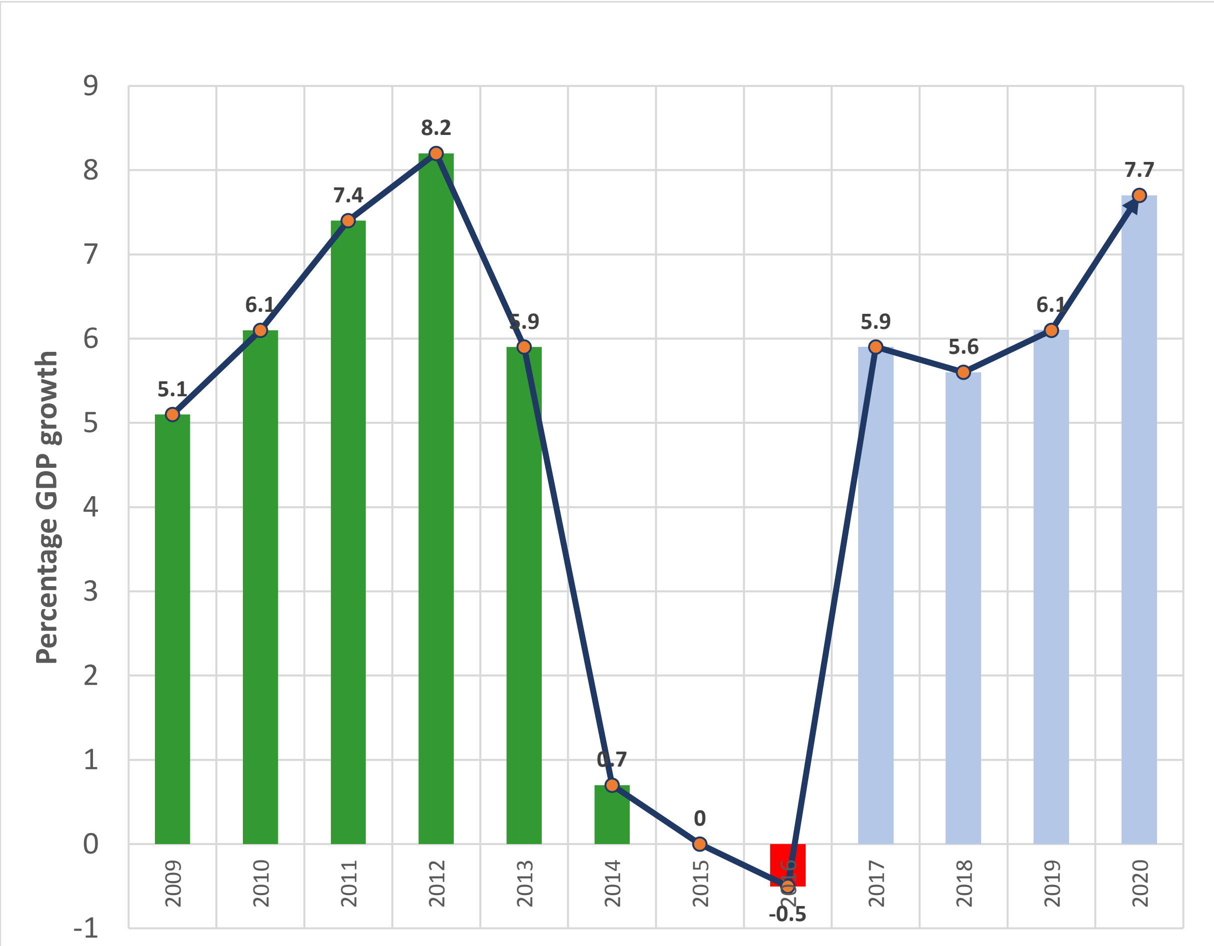
and requiring and advocating for the use of national systems, direct external financing alignment with development priorities, and in particular, funding PSIPs and increasing on budget/sector support

2. Existing Context and Challenges

1.1 Overview of the macroeconomic situation

Liberia experienced a robust economic recovery until the onset of the Ebola Virus Disease (EVD) in 2014 and the sharp decline in export receipts. Over the period 2005 to 2013, real GDP grew by 7.6% per annum with per capita income rising by 3.8% per annum. There was no increase in GDP from 2014-2016 implying that per capita income declined by approximately 3% per annum. Inflation rose to 9.9 percent in August, and average inflation for 2016 is projected at 8.7 percent, reflecting depreciation of the Liberian dollar and, to a lesser extent, the impact of higher indirect taxation in the telecommunication and transport sectors. Inflation was 8.4% in 2005-2013 compared to 8.4% in 2014-2016.

Figure 1: GDP growth (actual and projections)



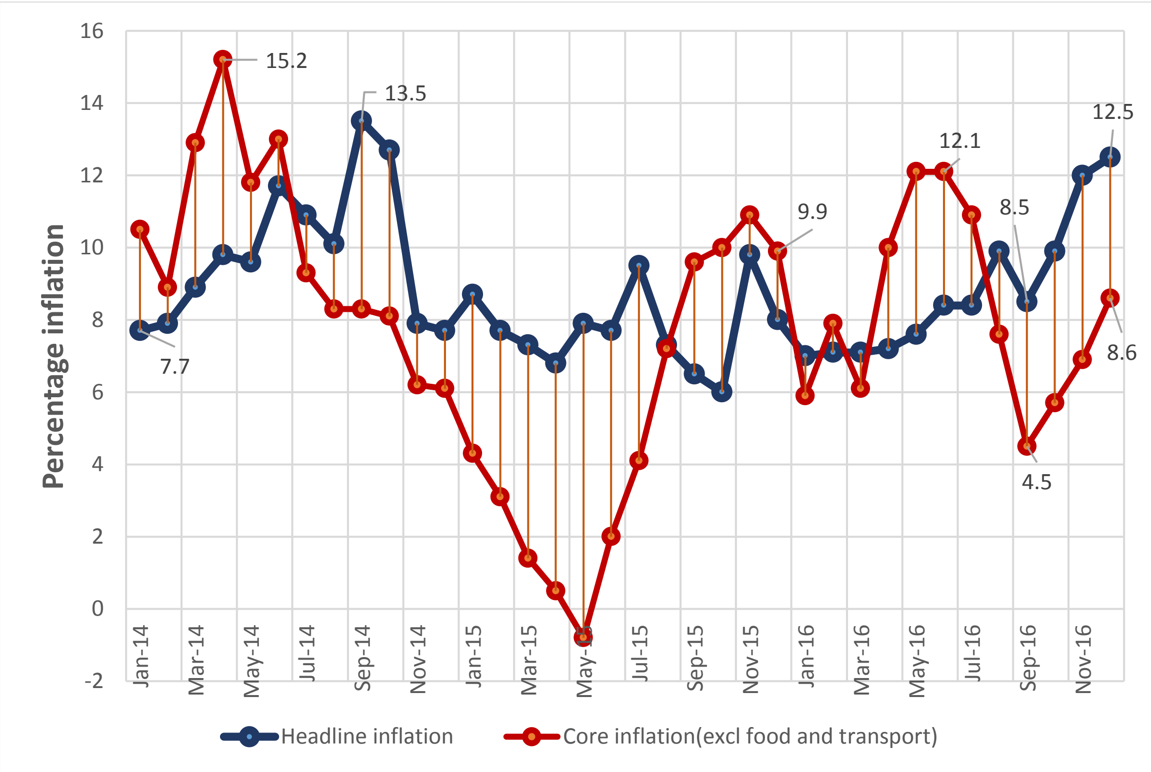
Source: MFDP Mid Term review of the AfT

The economy is less diversified and dominated by a few sectors constraining the efforts to achieve sustainable inclusive growth and macroeconomic resilience

It is highly import dependent, making it vulnerable to external shocks, including fluctuations in commodity prices. These not only affect domestic revenues but also contributes to higher inflationary pressures

Inflation has been on an upward trend since 2014. The headline inflation rose from 7.7% in December 2014 to 12.5% in December 2016. The increase is attributed mainly to depreciation of the Liberian dollar. The major groups that drove inflation during 2016 compared with 2015 included food and non-alcoholic beverages (from 5.9% to 14.2%); transport (from 14.4% to 20.9%);

Figure 2: Headline and core inflation for the period January 2014 to December 2016



Source: CBL and Liberia Institute for Statistics and Geo-Information Services data

In order to raise to raise tax revenue as well as conform to the WTO and migration to the ECOWAS Common External Tariff (CET), the Government of Liberia through an act of the National Legislature in December 2016, amended the Liberia Revenue Code 2000 (last amended in 2011). The amendment increases the goods and services tax (GST) rate from 7% to 10% for all goods and services and 15% GST rate applicable to telecommunication services. Excise taxes on imported non-alcoholic beverages increase from 10% to 20%. The amendment introduces an excise tax on mobile telephone usage of one cent US$ per minute. Professional services, such as consulting, logistics, and security, not previously subject to GST will now have a compliance obligation under the revised GST rules.

These tax amendments and clearing procedures at the port have imposed significant burden on the consuming public and companies operating and investing in Liberia through high prices of essential goods as well as cost of doing business. This has exacerbated the situation given the inflation induced by the LRD and acute shortage of foreign exchange and has led to public protest, including closures of markets with implications of peace and stability, the human security (i.e. "freedom from fear", "freedom from want" and "freedom from indignity"), and UN programming and operations in Liberia.

There is an attrition of the fiscal space. From 2005 to 2013, annual government revenue (excluding grants) averaged 19.2% of GDP and expenditure averaged 24%. Corresponding data for 2014-2016 were 22.6% and 35.3% of GDP. The overall annual budget deficit including (excluding) grants in the first period was 3.5% (5.1%) of GDP. Between 2014 and 2016, it was 4.8% (12.7%).

Debt to GDP was in 27.3% in 2014 and by 2016 it had risen to 38.9%. It is projected to rise to 51.5% of GDP in 2018, beyond any level which can be sustained.

The inflation differential and the limited rate of depreciation of the Liberian dollar have led to an appreciation of the real exchange rate[2]. This has undermined Liberia's recovery of productive employment and livelihood opportunities particularly in rural areas. It also partially accounts for the persistent high levels of informality in the economy.

Exports of goods and services averaged 45% of GDP over the period 2005 to 2013 while imports averaged 162.1% of GDP. The corresponding data for the period 2014-2016 were 15.6% and 54.9%. The trade imbalance from 2017 to 2021 is projected to be 27.9% of GDP. This is equivalent to the savings-investment gap. The corresponding BoP current account deficit (including grants) is projected to be 24.2% of GDP. This represents the net increase in Liberian indebtedness to the rest of the world. The resulting large trade imbalance highlights the degree to which absorption (i.e. domestic expenditure) has exceeded domestic output in Liberia. It also reflects the gap between gross domestic savings and gross domestic investment. With public savings being negative over the whole period (as noted above), the gap between absorption and output has been driven by private behavior and the sentiments (attitudes to risk, lack of confidence, low savings, and limited long-term accumulation) which underpin that behavior.

The existing data clearly show that Liberia's recovery and subsequent growth and development will depend heavily on savings supplied from abroad. IMF balance of payments data project continued trade and current account deficits to 2021. Given the dynamics in the economy the deficits will persist well beyond that date. Of course, these gaps will only materialize if foreigners willingly continue to transfer their savings (through grants or loans) to Liberia.

The budget is chronically in deficit, dependent on taxes on income and international trade (both of which are subject to shocks) and dominated by expenditures on personnel emoluments and subsidies/transfers. Current budget policies are closing off rather than opening up fiscal space.

[2]The real exchange rate in Liberia remains over-valued. This is reflected in the huge and persistent trade and current account deficit on the balance of payments. The CBL explanation of the source of depreciation has shifted over time. For example, the CBL Quarterly Bulletin (Jan-Mar 2014, p. 13) stated: "inflationary pressure continues to rise mainly as a result of exchange rate depreciation." A more recent report was more nuanced (CBL Jul – Sep, 2016, p.21): "The depreciation of the Liberian dollar was explained by the declining commodity prices (…), net injection of Liberian dollars, UNMIL drawdown, increases in Liberian dollar expenditure and demand for FX to service import payments…" The second explanation shifts away from inflation as a source of depreciation to depreciation as source of inflation. The real appreciation continued over the period 2014 to 2016 with the exchange rate depreciating 12.4% against the US dollar while the price level rose 27.7% (CBL Jul-Sept 2016, Tables 7,13) See also IMF (December 2016, Text Chart 1, p.5) for evidence of real appreciation..

1.2 Social and human development situation

More than half the population of Liberian are poor, though there has been slight reduction in the rate of headcount poverty (based on national poverty lines) from 63.8% in 2008 to 56.4% in 2010 and then to 54.10% in 2014.More rural people than urban, are vulnerably employed, 85% compared to 65%, which means, just 15% of those employed rural dwellers have secured jobs.

Liberia's HDI for 2014 is 0.430. However, when the value is discounted for inequality, the HDI falls to 0.280, a loss of 34.8% in human development due to inequality in the distribution of the HDI dimension indices.

3. Analysis of the Results and Findings

The study uses a combination of methods, including desk reviews, triangulations, and expert opinions. The main findings/results are as presented below:

Recent Amendments of the Liberia Revenue Code and Fiscal Space;

The amendments will lead to raising additional revenue to finance the budget deficit as well as progression towards conformity to the ECOWAS CET. Without the new tax amendment, a huge budget gap of 146M will remain, complicating Liberia's ability to meet development finance its expenditures, unless the other measures are taken to reduce expenditure. However, the tax increase will affect consumers:

- The amendment will deprive the consuming public of access to these goods and services thus worsening their welfare. It also means that the Liberia Revenue Authority(LRA) may not be able to collect significant amount of revenue as consumers switch to other substitutes or stop their consumption altogether.
- The tax burden from the increase in GST and excise taxes on most essential goods and services will be passed fully to consumer implying increased costs of living. This also includes the tax payable on improved land which will lead to increases in the rental costs on residential property further increasing the cost of living for the poor
- Recurrent expenditure continues to dominate the FY2016/17 budget, which is further strained by election and security spending. The largest expenditure line in the FY2016/17 budget continues to be for compensation, which at USD 287.0 million has increased by 12% over the previous year
- SOEs would contain their expenditure, improve dividends, and reduce fiscal risks. SOEs are expected to contribute USD 49 million in the FY2016/17 budget, some 8% of revenues

Undertake tax reforms and explore other financing options to cover the short fall and reduce budget deficits, these include:

- ***Simplifying the process of paying taxes so that taxes due are not accumulated and carried forward,*** consider the automation of tax payment system through the use e-payment platforms, (ii) aggressively tackling leakages in existing tax system as result of loss due to under invoicing and collusion, tax fraud, discretionary assessment and strengthening tax payers education and promoting a culture of accountability (iii) Broadening the tax base to areas with great untapped revenue potentials such as real estate and tourism and restaurants, entertainment, the informal economy (especially rock and sand mining, artisanal mining, pit sawing; employee withholding taxes, which in many cases are not remitted in time or cases where they are reminted, are under declared, (iv) review and streamline the exemptions regime to minimize revenue loss;(v) community participation and sensitization and awareness raising measures to improve tax compliance making tax compliance as a standing item in community meetings will greatly contribute (vi) enlisting residential properties for tax purposes and partnering with communities and their leaderships (including faith based organizations) to enlist and enforce compliance as part of efforts aimed at intensifying enforcement to collect real property taxes.

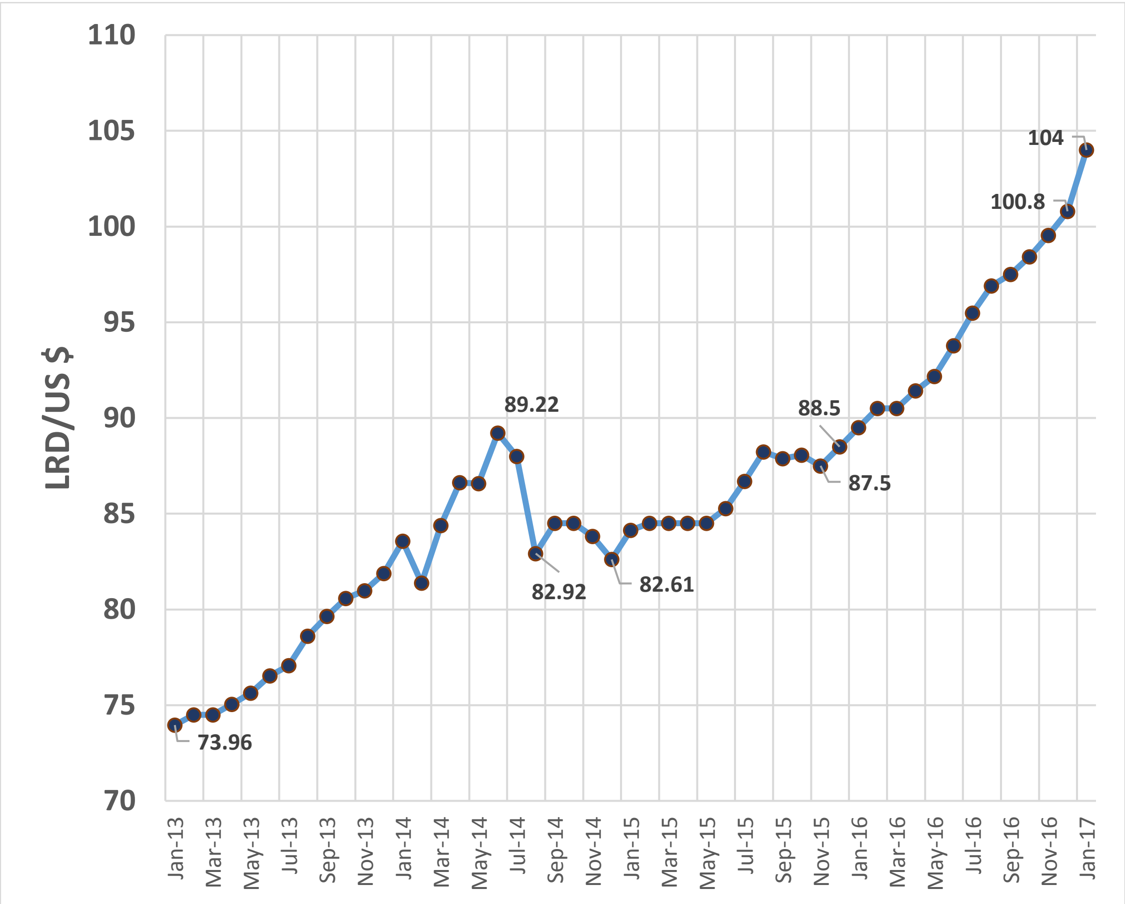
- ***Undertaking Public financial management reforms to reduce wasteful expenditure and budget escalation***: Containing recurrent costs and particularly compensation is necessary to increase the fiscal space for investment and social spending. Polling of vehicles to reduce fuel consumptions, the elimination of gas coupons in favor of fuel card. Recurrent expenditure, which are estimated at 82% of the FY05/16 budget is amongst the highest rates in Africa and compares to around 75% in Ghana and 65% in Sierra Leone (PIMA 2016). With regard to orienting the budget to plan, the allocation of 25% of the budget to expenditures on domestically produced items needs to be linked to budget approval process, where by spending MACs are required during the budget hearing process to show that they did complied with this. Additionally, budget appropriations for each spending entity must be tied to the realization of a set of development targets/indicators prioritized.
- ***State-Owned Enterprises (SOEs):*** Strengthening the oversight and policy frameworks.
- ***Improved revenue forecasting***: Efforts to improve revenue forecasting and avoid expanding the envelope during the approval process would help avoid repeated revenue shortfalls and improve budget allocations and credibility.
- ***Domestic and foreign borrowing***: However, debts should be kept within levels that do not lead to debt distress and resurgence of huge debt burden.
- ***Appeals for more direct budget support:*** Consultations should also be held with development partners with view to requiring alignment to the development plan, sector or direct budget support and general use of country systems.

Monetary policy, price and exchange rate stability:

- Liberia does not have the required amount reserves to effectively manage exchange rate fluctuations using its exchange auctions.
- The ability of the CBL to control the supply of the domestic currency (LD$ share of broad money) is further hampered by the high level of currency outside banks, which has been hovering around 90% of the broad money (Table 6). This reflects very low levels of financial inclusion.
- In addition to the exchange rate targeting monetary policy regime, Liberia also faces the problem of high level of dollarization in which the US dollar serves a legal tender. Currently US dollar contributes about 68.4% of broad money supply is not fully set by domestic monetary authorities but, rather, by the behavior of agents holding USD and LRD denominated assets. This obviously complicates CBL's ability to control inflation.

- The GoL has embarked on a process to gradually reduce the dollarization stimulating capital flight and if the efforts are heightened it may eventually drive the dollarized economy underground.
- One of the major disadvantage is loss of monetary policy autonomy by CBL-the only active monetary policy tool at its disposal is the reserve requirements with minimal potential for seigniorage (printing press). Specifically, a depreciation of the Liberian dollar vis-à-vis the US dollar increases foreign assets
- With reduced export proceeds, decline in donor inflows, and increased expenditure in the context of high levels of dollarization, the ability of the CBL to ensure nominal exchange rate stability through foreign exchange interventions has been hampered mainly by lack of sufficient level of international reserves. Safe for 2016, the months of import cover has been well below the West African Monetary Zone (WAMZ) minimum requirement of 3 months, which limits the ability of the CBL forex interventions. This has led to sustained depreciation of the LRD from an average of LRD 73.96/US $ in January 2013 to LRD 104/US $ in January 2017, which is about 40.6% loss in value of the domestic currency.

Figure 3: Nominal Exchange Rate (Jan 2013 to Jan 2017)



Source: CBL

The exchange rate depreciation contributed to inflation increasing from 8.0% in December 2015 to 12.2% in December 2016. The increased taxes following the recent amendment of the LRC are likely to lead to cost-push inflation.

Ensuring exchange rate stability in the face of limited international reserves with the kind of challenge that CBL has on the exchange rate, there is need to assess whether the existing exchange rate targeting monetary policy regime is appropriate for Liberia. Exchange auctions and regulations have helped in cushioning transitorily, the impact, attacking the symptoms rather than the root causes.

Human security; With regard from the freedom from fear, Liberia has been fairly peaceful. The Mo Ibrahim Governance Index for Liberia in 2015 is 50.7% (rank 26 out of 54 countries), which is below the West African region average of 52.4%. Liberia was ranked 72 out of 163 countries in the Global Peace Index and number 15 most peaceful countries in Africa in 2016[3]. Thus the recent protests reduce human security by making people to live in fear. Thus the tax-induced increases in prices as well as the depreciation of the LRD are likely to deprive the consuming public of access to these goods and services further worsening human security.

Economic diversification and boosting of productivity; There have been limited translation of policy intention into budgeting and financing of the agricultural sector. Commercial loans disbursements to the agriculture sector is less than 7% of total loans disbursed (in millions of LRD) for the period Dec 2013 to Nov 2015., while the share of Agriculture in the budget is less than 5 percent. The Liberia economy is less diversified, dominated by few sectors and susceptible to external shocks including fluctuations of commodity prices

Water shortage and climate change; Water shortages are growing, with a 28.0% in 2016 slump in output due to a prolonged period of technical faults at the National Water Treatment Plant of the LWSC, the main source of water supply to Monrovia and its environs. This has been made worse by climate change, which has led declining water levels and hence increasing costs. There is need to do a thorough analysis of the water shortage as well as the reasons for the frequent technical faults at the Liberia Water and Sewer Corporation (LWSC).

4. Way Forward

After making considerable progress from its lowest point of crisis during the war towards greater resilience, Liberia is currently at a critical stage in peacebuilding and development trajectory. The twin shocks (EVD and declining commodity prices) has put the 2016/2017 budget under severe strain at a time when the country has to navigate the political and security transitions. All these call for a need to diversify the economy so as to achieve macroeconomic resilience. While the review of the tax system is imperative to ensure a balance between preventing political instability and meeting government budgetary requirements, the tax amendment needs to be reviewed to investigate and determine the effective tax rate for the US $ 0.01 per minute excise tax on mobile phone usage.

The current economic difficulties are standard macroeconomic management issues in the face of domestic and external shocks. There is therefore a need to focus on the root causes of the problem instead of knee-jerk reactions while taking into consideration the political economy dynamics. The principal issue is overall macroeconomic management, i.e., the combination of fiscal, monetary, exchange rate, and debt policies that influence the decisions of Liberians and others to invest, hold assets, adopt new technology, and expand employment. With Liberia following exchange rate targeting monetary regime, depletion of the international foreign

[3] Compiled by the Institute of Economics and Peace.

reserves complicates the ability of the CBL to ensure a stable exchange rate. This is further worsened by the pervasive dollarization, high levels of currency outside banks, regulation and trust. Therefore, dollarization has not been the main bane, it is rather a manifestation of the economic realities, and must be approached in a systematic way if de-dollarization is contemplated. So far the issue of de-dollarization has been viewed too narrowly. Liberia will continue to rely on the US dollar and other hard currency so long as the as economic management is challenging. A new discourse perhaps beyond this paper is the reflection on what one may consider as relevant inflation rate. Economic analysis should focus on real exchange rate and real effective exchange rate to access competiveness and impact on consumers of prices and exchange rate movements.

5. Implications and Recommendations

The implications are twofold: a) **UN/and partners programming and b) overall stability and development in Liberia**

- If that situation worsens leading to political instability, UN budget will be under pressure to provide for hardship allowances and other staff incentives, at the risk of other pressing development financing; some welfare and incentives may be lost in course tackling the economic problems and maintaining economic stability. Collective action is imperative.
- There will be greater call for alignment to and orientation toward national plans and budget of development assistance.
- It is likely that the GoL could request the UN and other partners, similar to the current measures it has taken on the remittances, to make 25% of all transactions payable in Liberian dollars, through banking systems- requiring that all doing business with the UN have formal bank accounts. The UN role then will be support formalization of SMEs and other actors.
- UN's technical assistance may be requested to support efforts toward the expansion of the fiscal space building on the support being provided by the UNDP to the LRA and the MFDP.
- The UN will have a strong advocacy role, including advocating for direct budget support, in strengthening and using country systems, and stepping up development coordination
- Abrupt de-dollarization will be unwise for Liberia given the history of this activity. With about 70% of broad money in US dollars, any effort to de-dollarize requires tact and innovation with a gradualist or phased approach; incentivizing the need to hold and prefer national currency (the LRD). Experience shows that a process of de-dollarization should not be done at a time of significant macroeconomic or political instability. The reason is that it is these very reasons that cause people to abandon the national currency as a store of value, unit of account and means of payment.

Recommendations

- GoL should continue to revise the provisions of the 2016 amendments of the LRC as well as devising other options to close the financing gap; but phase in the implementation so as to reduce the tax burden and hence the potential for political instability. This should help reduce the financing gap to around $38M from its current projection of $146M.
- Delay taking further action on de-dollarization until there is macroeconomic stability and the political and security transitions are over. Under current circumstances, any additional push for de-dollarization is likely to stimulate significant capital flight and drive the

dollarized economy underground. In the meantime, CBL should strengthen its regulatory and surveillance, and improve its data collection and review capacities.

- An immediate priority should be given to increasing the stock of foreign exchange in the economy as a buffer to economic shocks. At the same time given Liberia's mixed tax structure- both specific rates and ad valorem, the adoption of the common external tariff, could help simplify the structure of taxation.
- Prioritize diversification of the economy into other growth-promoting and employment-creating sectors such as small-scale agriculture, fisheries, tourism and manufacturing. Improved incentives and better rural infrastructure would accelerate agricultural commercialization and strengthen value chains linkages and agri-business supplier development.