

LIBERIA

Key conditions and challenges

Table 1 2020

Population, million	5.1
GDP, current US\$ billion	2.9
GDP per capita, current US\$	583.1
International poverty rate (\$ 19) ^a	44.4
Gini index ^a	35.3
School enrollment, primary (% gross) ^b	85.1
Life expectancy at birth, years ^b	63.7

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2016), 2011 PPPs.

(b) WDI for school enrollment (2017); life expectancy (2018).

Liberia's economy is expected to recover in 2021 as economic activity picks up following the lifting of lockdown measures in the second half of 2020. Real GDP is projected to expand by 3.3 percent in 2021 and rise to an average of 4.4 percent during 2022-23. Headline inflation is expected to moderate to single digits on the back of a tight monetary policy stance. The outlook assumes high uncertainty and downside risks around COVID-19 and the likely resurgence of Ebola.

Liberia's economy is undiversified and highly reliant on primary commodity exports and therefore vulnerable to shocks, which continue to pose macroeconomic challenges. The economy contracted for the second year in a row in 2020 due to the adverse impact of the COVID-19 pandemic. Limited fiscal space from low domestic resources mobilization and a relatively high wage bill continue to constrain public investments in key sectors, including agriculture, infrastructure, education, and health thus keeping GDP growth below the population growth. Extreme poverty incidence increased to pre-2012 levels during the two consecutive years (2019-20) of economic contraction and is projected to peak at 52.1 percent in 2021. Poverty reduction is expected to resume from 2022 onwards, but the recent shocks have set progress back by 5 years.

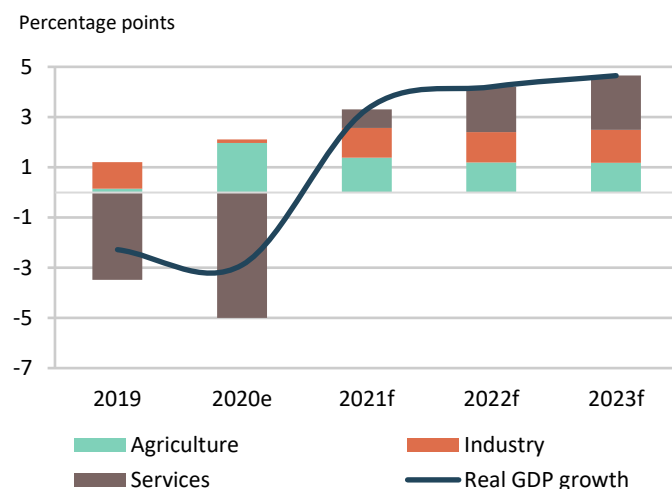
The COVID-19 pandemic has adversely impacted economic and social outcomes. Two-thirds of households reported income loss and dire food situation according to the High Frequency Phone Monitoring Survey Report (HFPMs) launched in August 2020. In the wake of the COVID-19 pandemic, the deadly Ebola Virus Disease (EVD) that severely affected lives and livelihood in Liberia (2014-2015) has resurfaced in neighboring Guinea. With the relatively porous borders, there is a high

risk of spread into Liberia with the accompanying fiscal pressures as government activates its preparedness and response plan. Meanwhile, the financial sector has faced consistent shortage of Liberian dollars, partly due to high inflation rates since 2018.

Recent developments

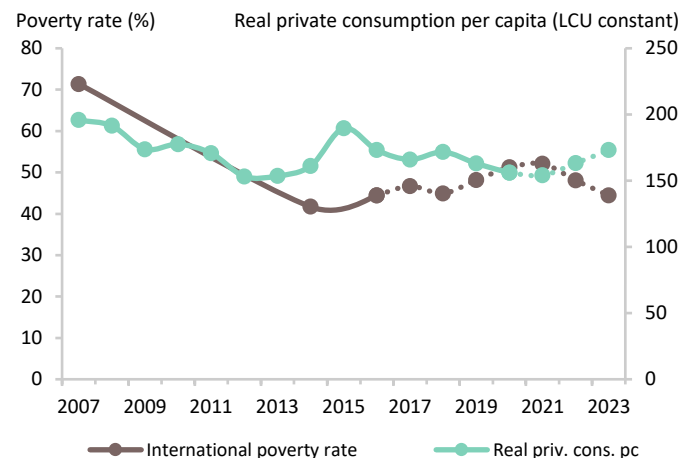
The COVID-19 pandemic and related containment measures adversely impacted economic activity during most of 2020. Following the lifting of lockdown measures in the second half of 2020, economic activity has picked up in most of the productive sectors of the economy. With the notable exception of the mining sector, which experienced an 8.1 percent (y/y) reduction in iron ore production, output in other productive sectors of the economy increased significantly during the second half of 2020, reflecting an increase in domestic and external demand. Rubber output increased by 6.9 percent (y/y) in the second half of 2020, as operations resumed in the sector amid favorable international prices. Gold output increased by 19.5 percent (y/y) despite the recent decline in international prices. Production of cement and beverages rose by 55.8 percent (y/y) and 29.0 percent, respectively, indicating increased activities in the construction and other services sector as lockdown measures were lifted. Business sentiment also improved with about 70.6 percent of firms having positive expectations for sales and 6.1 percent anticipating an

FIGURE 1 Liberia / Real GDP growth and sectoral contribution to real GDP growth



Sources: World Bank staff calculations based on IMF and CBL data.

FIGURE 2 Liberia / Actual and projected poverty rate and real private consumption per capita



Source: World Bank. Notes: see table 2.

increase in workforce according to the HFPMS concluded in December 2020. Headline inflation declined significantly reaching 17.4 percent in 2020, down from 27.0 percent in 2019. Food and non-food inflation fell to 15.7 percent and 11.5 percent, respectively in December 2020, from 23.0 percent and 18.6 percent a year ago. The moderation in inflation was due to the Central Bank of Liberia (CBL) tight monetary policy stance in 2020, weak economic activity, and lower international oil prices. Despite sharply lower international oil prices, fuel prices in Liberia fell only slightly due to the introduction of an excise tax to boost revenue collection. The fiscal deficit narrowed to 3.7 percent of GDP in FY2020, from 6.1 percent in FY2019. The FY2021 budget of US\$570 million was approved in October 2020 and a mid-year review of fiscal operations showed public expenditure within the limits of the revenue collected. Revenue collection amounted to 9.8 percent of GDP, while cash expenditure amounted to 8.5 percent of GDP, reflecting a fiscal surplus on a cash basis. Liberia's current account deficit narrowed to 20.5 percent of GDP in 2020 due mainly to an improvement in the trade balance as a result of increased iron ore and gold exports. The improvement in the trade balance and rise in net remittances inflows helped support

the relative stability in the L\$/US\$ exchange rate in 2020. Gross official reserves rose to US\$326 million, equivalent to 2.5 months of imports in 2020, up from US\$292 million, equivalent to 2.3 months of imports in 2019 due to increased donor support.

Outlook

Liberia's economy is expected to recover and return to a relatively strong growth path over the medium term. Output is set to expand by 3.3 percent in 2021 and rise to an average of 4.4 percent during 2022-23 as economic activity picks up in the productive sectors, especially mining, agriculture and construction. The headline inflation rate is expected to moderate further to single digit in 2021 as the CBL maintains its tight monetary policy stance to contain inflation. Annual average inflation rate is expected to decline to 9.8 percent in 2021 and further to 5.5 percent by 2023.

The fiscal deficit is projected to narrow to 2.9 percent of GDP in FY2021, and further to 2.0 percent of GDP by FY2023 as revenues improve and the Government maintains its tight expenditure controls. However, Liberia's external position is

expected to deteriorate in 2021 as import demand rises faster than export growth. The current account deficit is projected to widen to 22.3 percent of GDP in 2021, and further to 22.8 percent of GDP in 2023.

The outlook assumes high levels of uncertainty around the evolution of the COVID-19 crisis and the evolving Ebola situation, with risks tilted to the downside. The resurgence of the COVID-19 pandemic and its likely impact on external demand and global and domestic supply chains; delayed access to vaccines, as well as low confidence and unaddressed vulnerabilities in the financial sector could undermine economic recovery, increase poverty, and weaken Liberia's fiscal and external balances. An outbreak of Ebola in Liberia will only heighten these risks and uncertainties.

TABLE 2 Liberia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	-2.3	-2.9	3.3	4.2	4.7
Private Consumption	6.0	-2.8	-1.9	1.1	8.6	8.6
Government Consumption	-4.3	4.0	-11.6	1.0	-8.5	-16.6
Gross Fixed Capital Investment	-13.6	-4.3	0.2	7.6	2.9	6.0
Exports, Goods and Services	-0.3	1.6	-10.2	1.0	1.6	1.6
Imports, Goods and Services	-13.8	0.4	-7.4	1.3	3.1	3.1
Real GDP growth, at constant factor prices	1.2	-2.3	-2.9	3.3	4.2	4.7
Agriculture	-0.2	0.4	5.3	3.5	3.0	3.0
Industry	20.0	5.2	0.6	5.2	5.3	5.7
Services	-4.6	-7.9	-12.1	2.0	4.9	5.8
Inflation (Consumer Price Index)	20.4	27.0	17.4	9.8	7.0	5.5
Current Account Balance (% of GDP)	-23.5	-22.1	-21.1	-22.3	-22.5	-22.8
Fiscal Balance (% of GDP)	-4.8	-6.1	-3.7	-2.9	-2.9	-2.0
Debt (% of GDP)	40.3	52.5	56.6	62.0	64.5	64.0
Primary Balance (% of GDP)	-4.2	-5.4	-2.3	-1.8	-0.7	0.1
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	44.9	48.2	51.2	52.1	48.1	44.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2016-HIES. Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2016) with pass-through = 1 based on private consumption per capita in constant LCU.