SUPPORTING ECONOMIC TRANSFORMATION

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Liberia

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Key messages

- Economic growth for 2020 is likely to be lower than the 1.4% forecast, with reduced service sector activity owing to social distancing measures and significant falls in the prices of some of Liberia's key export commodities.
- Government revenues have been hit by falls in international trade volumes and will be hit further by reductions in royalties from commodity exports, worsening an already tight fiscal situation.
- Policy response has so far been led by the Central Bank of Liberia, which has reduced fees on financial transactions, including mobile money, and relaxed credit rules to allow banks to provide flexibility to firms struggling because of COVID-19.
- The World Bank has committed $15 million in additional support to Liberia to respond to COVID-19, of which $1.5 million has already been made available.

Introduction

As of 8 April 2020, Liberia had 31 confirmed cases of coronavirus, with 4 deaths. Since 21 March, social distancing measures have been in place; schools, religious centres, bars and markets are shut. On 8 April, a 14-day stay at home order was issued for the capital city Monrovia and three other counties, to take effect from 11 April. Movement between counties is prohibited, borders to neighbouring countries are closed and commercial flights are suspended.

Liberia had already entered 2020 in a challenging economic and fiscal context, with an estimated -1.4% GDP growth in 2019. The government entered a four-year $213.6 million Enhanced Credit Facility with the IMF in December 2019. In 2016, government health spending per capita was only $19, complemented by more than twice as much ($40) external health spending per capita.

Economic and social impacts

Trade and production

GDP growth was forecast at 1.4% for 2020 as the economy recovered from the contraction in 2019. The COVID-19 pandemic is likely to weigh significantly on growth in services and commodity exports. The services sector, which is the highest contributor to GDP (42%), was already projected to decline by 1.7% in 2020. The social distancing measures imposed by the Ministry of Health and the potential outbreak of COVID-19 mean this decline is likely to be even more substantive.

The twin shocks of Ebola and low commodity prices led GDP growth rates for Liberia to decline from 8.7% in 2013 to 0.7% in 2014. Growth then stagnated at 0.0% and -1.6% in 2015 and 2016, respectively.

Most of Liberia's key export commodities have recently seen global price falls (see table), which could have significant impacts on growth (the forestry and mining sectors alone make up 23% of GDP). Liberia's largest export, iron ore, has seen prices fall by 12% in the year to date. In addition, major challenges will be felt in the rubber sector, with the country's major producer Firestone already extending a suspension of rubber purchases from smallholders in the face of a 21% fall in global prices, coming just one year after they cut 800 jobs amid continued operating losses.

Changes in global prices of key export commodities

Export commodity	Price change YTD (US$, 2 January–8 April 2020)
Iron ore	-12%
Gold	10%
Rubber	-21%
Timber	-25%
Cocoa	-5%

Although the price of petroleum has fallen dramatically in 2020, Liberia has nevertheless experienced severe fuel shortages over the past few months, which have resurfaced as the COVID-19 pandemic has accelerated.

The employment to population ratio in 2010 was 60.5%. Of those employed, 78.8% are in vulnerable employment.

Finance
Inflation hit 27.3% in 2019, largely driven by a depreciating Liberian dollar, which lost 19.3% against the US dollar. Reduced demand for Liberian dollars owing to falling exports and remittances could put further pressure on the exchange rate and inflation. So far, the exchange rate has remained static against the dollar, at just below 200 LRD/US$ since February.

Social
Inward remittances are a key source of foreign exchange in Liberia, at $405.7 in January to November 2019 (approximately 14% of GDP). Job losses in advanced economies, where the diaspora is located, could substantially affect these inflows, harming livelihoods and putting pressure on the exchange rate.

Fiscal impacts

Government revenues
Less international travel will directly reduce taxes and fees on aviation and indirectly reduce goods and services taxes and corporate income tax in hospitality. It could also affect the operations of businesses that rely on expatriate workers (particularly in concessions).

During Ebola, revenue fell from 27.7% of GDP in 2013 to 22.4% in 2014. This decline was, however, softened by a large increase in aid from 2.4% of GDP in 2013 to 10.0% GDP in 2014.

Debt
The latest joint IMF–World Bank Debt Sustainability Analysis, from November 2019, concluded that Liberia was at moderate risk of external debt distress and high risk of overall public debt distress, with very limited space to accommodate shocks.

Monetary and financial policy

Financial policy
On 24 March, the Central Bank of Liberia implemented various policies focused on reducing financial charges to ease the economic impact of COVID-19:

- All charges on the Automated Clearing House, Direct Credit and Real Time Gross Settlement System are suspended for three months. Commercial banks are expected to do the same. Mobile money operations charges, including money transfer and payment transaction fees, are also suspended for one month.
- Daily and monthly transaction limits have been increased by 100% and 50%, respectively, across each of the three levels.
- Rules of credit are suspended for three months, for borrowers in aviation, hospitality, tourism and agriculture sectors and in businesses involved in cross-border trading. This means financial institutions are required to exercise flexibility to borrowers in these sectors, including restructuring terms on a case-by-case basis.

Fiscal policy

The government is currently developing a strategy note on the economic, social and fiscal impacts of the COVID-19 outbreak, and a budget to address additional health and administrative expenditures.

Other policy

Since 21 March, the government has imposed strict sanctions on two counties, as noted above. On 8 April, the president declared a nation-wide state of emergency and imposed strict measures on movement. Starting 11 April, residents of Montserrado (which includes Monrovia), Margibi, Grand Cru and Nimba counties are to stay at home for 14 days; they may leave their home only for food and health needs, and only one member of the household at a time for up to one hour. Exceptions are made for essential government staff and businesses. In the rest of the country, travel between counties is prohibited.

Donor support

The World Bank has committed $15 million additional funding for the COVID-19 response, of which $1.5 million has already been made available for the health response. The Bank has also signed an agreement for $40 million in direct budget support, which, though not additional COVID-19 assistance, may help the government reallocate resources to the emergency.

The US Embassy announced that part of the $40 million in annual planned assistance to Liberia's health sector could be reallocated to respond to COVID-19. Liberia was, however, excluded from the US State Department's initial additional aid of $274 million to 14 African countries for the COVID-19 response.

International philanthropic organisations have made significant contributions. The Jack Ma and Alibaba Foundations have donated 20,000 test kits, 100,000 medical masks and 1,000 protective suits and face shields to each member state of the African Union, including Liberia. ECOWAS has also supplied Liberia with test kits. The Liberian private sector has also provided support. UBA Bank has provided $150,000 to the government, while Orange Liberia has donated medical and non-medical supplies worth $50,000 to the Ministry of Health.

Information in this note is correct as of 8 April 2020. The authors are ODI Fellows in Liberia; this note is written in a personal capacity. Comments welcome to l.nordgreen.fs@odi.org.uk and m.kumar.fs@odi.org.uk