INTERNATIONAL MONETARY FUND

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March 2008
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Liberia: Fourth Review of Performance Under the Staff-Monitored Program and Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility and the Extended Fund Facility—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Liberia

In the context of the fourth review of performance under the Staff-Monitored Program and request for three-year arrangement under the Poverty Reduction and Growth Facility and the extended Fund facility for Liberia, the following documents have been released and are included in this package:

- The staff report for the Fourth Review of Performance Under the Staff-Monitored Program and Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility and the Extended Fund Facility, prepared by a staff team of the IMF, following discussions that ended on March 14, 2008, with the officials of Liberia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 27, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Press Release summarizing the views of the Executive Board as expressed during its March 14, 2008 discussion of the staff report.
- A statement by the Executive Director for Liberia.

The documents listed below have been or will be separately released.

Enhanced Initiative for Heavily Indebted Poor Countries—Decision Point Document, Debt Sustainability Analysis, and Staff Supplement
Letter of Intent sent to the IMF by the authorities of Liberia

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

LIBERIA

Fourth Review of Performance Under the Staff-Monitored Program and Request for Three-Year Arrangements Under the Poverty Reduction and Growth Facility and the Extended Fund Facility

Prepared by the African Department
(In consultation with other Departments)

Approved by Thomas Krueger and Matthew Fisher

February 27, 2008

- Discussions for the fourth review of performance under the staff-monitored program (SMP) and a program to be supported by Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF) arrangements were concluded in Monrovia January 17–23, 2008. The staff team comprised Mr. Powell (head), Mr. Erasmus, Mr. Leichter (all AFR), Mr. Rodriguez (PDR), Ms. Wong (FIN), and Mr. Tharkur (resident representative). Staff from the World Bank participated in the discussions.

- The mission met with the Minister of Finance, the Governor of the Central Bank of Liberia, and other senior government officials. It also met with representatives of the donor community, the legislature, and the private sector and briefed President Johnson-Sirleaf on its preliminary findings.

- In the attached letter of intent (Appendix I), the authorities are requesting three-year PRGF and EFF arrangements for SDR 582 million (450 percent of quota under the 11th General Review) in support of a program covering 2008–10. The accompanying memorandum presents economic and structural policies to be implemented in the program.

- Appendix II assesses Liberia's case for exceptional access under the proposed PRGF/EFF in light of the four substantive exceptional access criteria in capital account crises. An accompanying paper will assess the risk of Liberia's exceptional access to the Fund and the Fund's liquidity position.

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EXECUTIVE SUMMARY

- **The post-war recovery continues.** Real GDP growth is estimated to have accelerated to 9½ percent in 2007 from about 8 percent in 2006, while inflation remained broadly stable in the low double digits. The trade deficit narrowed on account of slower import growth and continued strong export growth. Prospects for 2008 are favorable: real growth is projected at about the same level as in 2007, while inflation is projected to decline to a single-digit rate. The trade deficit is projected to substantially widen, financed in part by a significant increase in foreign direct investment.

- **Performance under the SMP through December 2007 was broadly satisfactory, and in the staff's view, met the standard of upper credit tranche conditionality,** with the exception of the continued accrual of external payments arrears. The authorities achieved all but one of the quantitative benchmarks, and also made good progress in achieving structural benchmarks, although a number required more time than programmed to be completed.

- **Looking ahead, considerable challenges remain to achieve the authorities' poverty-reducing goals.** While real GDP has started to recover, it still remains below its pre-war levels and Liberia remains one of the poorest countries in the world. Social indicators are weak, and under present circumstances Liberia is unlikely to achieve any of the MDGs by 2015.

- **The main objectives of the authorities' three-year PRGF/EFF-supported program** are to sustain economic reconstruction by creating a stable macroeconomic environment that would underpin rapid economic growth, job creation, poverty reduction, and progress toward achieving the MDGs. The program centers on continued efforts to strengthen economic governance, thus preparing Liberia to exit from the GEMAP once it reaches the HIPC Initiative completion point.

- **Macroeconomic policies will build on progress made under the SMP.** Fiscal policy will continue to be anchored on a balanced cash-based budget. Strengthening public financial management remains a key policy objective, particularly improving budget implementation and auditing. Monetary policy will continue to aim at maintaining price stability by focusing on the exchange rate of the Liberian dollar to the U.S. dollar.

- **Risks to the program are considerable.** The authorities will have to continue efforts to ensure full cooperation of the opposition-controlled legislature to achieve passage of key legislation, and to enhance institutional capacity, which is very limited currently.

I. Introduction

1. **This paper reviews Liberia's performance under the staff-monitored program (SMP) through December 2007 and proposes a three-year program to be supported by the Poverty Reduction and Growth Facility (PRGF) and the Extended Fund Facility (EFF)** once Liberia's arrears to the Fund have been cleared and its rights to access Fund resources restored.[1]

2. **The government of President Johnson-Sirleaf took office in mid-January 2006 facing severe challenges.** Fifteen years of civil war had destroyed much of Liberia's physical and human capital and severely damaged its institutions. The new government endorsed the Governance and Economic Management Assistance Program (GEMAP) drafted to improve governance and build capacity, established the Liberia Reconstruction and Development Committee to manage postconflict recovery, and requested IMF assistance in formulating and monitoring policies to stabilize the economy and support economic reconstruction.

3. **Progress since has been substantial.** Firm implementation of policy has supported a recovery in economic activity, broad price stability, and accomplished structural reforms to reinforce public financial management (PFM). The government has also finalized a strategy to regularize relations with domestic creditors, put in place a comprehensive anticorruption strategy, and substantially improved the financial position of the Central Bank of Liberia (CBL).

4. **The government still faces numerous challenges.** While real GDP has started to recover, it is still below prewar levels, and with per capita GDP estimated at US$195 in 2007, Liberia is still one of the poorest countries in the world. Social indicators are also weak; in current circumstances Liberia is unlikely to achieve any of the MDGs by 2015.

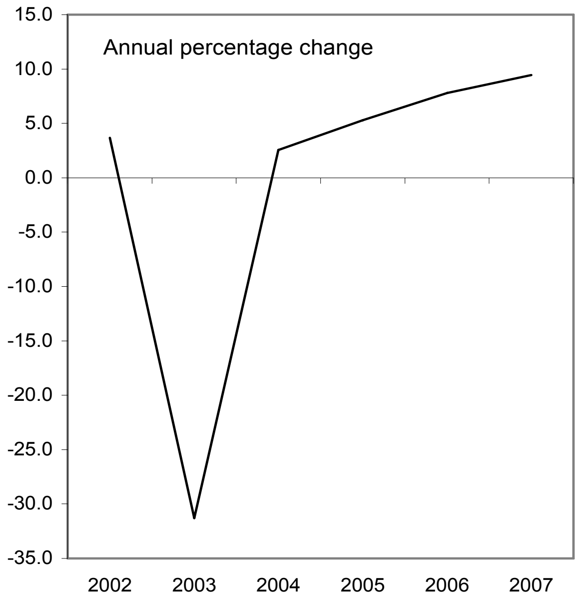
5. **A three-year PRGF/EFF-supported program is critical to move the government's reform agenda forward and address Liberia's unsustainable external debt.** Satisfactory performance on the PRGF/EFF-supported program would pave the way for comprehensive treatment of external debt under the Heavily Indebted Poor Countries (HIPC) Initiative and beyond-HIPC debt relief.

[1] Liberia's 2007 SMP was extended to end-March 2008 in order to allow Liberia to maintain a continuous track record of satisfactory policy implementation before requesting three-year arrangements under the PRGF and EFF.

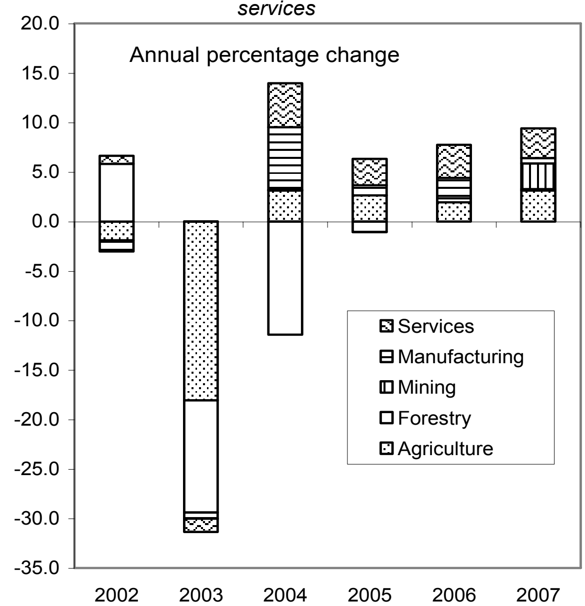
II. Recent Economic Developments and Performance Under the Staff-Monitored Program

Liberia: Selected Economic Indicators, 2002-07

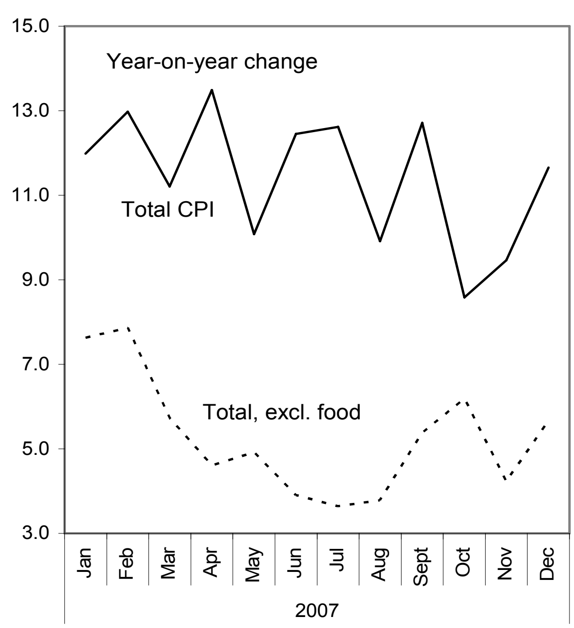
Real GDP growth rose further in 2007 ...



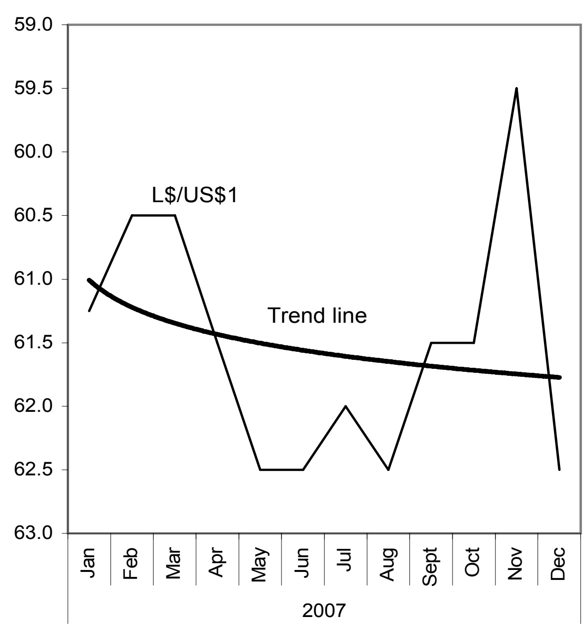
... supported mostly by agriculture, mining, and services



Inflation was broadly stable in low double digits...



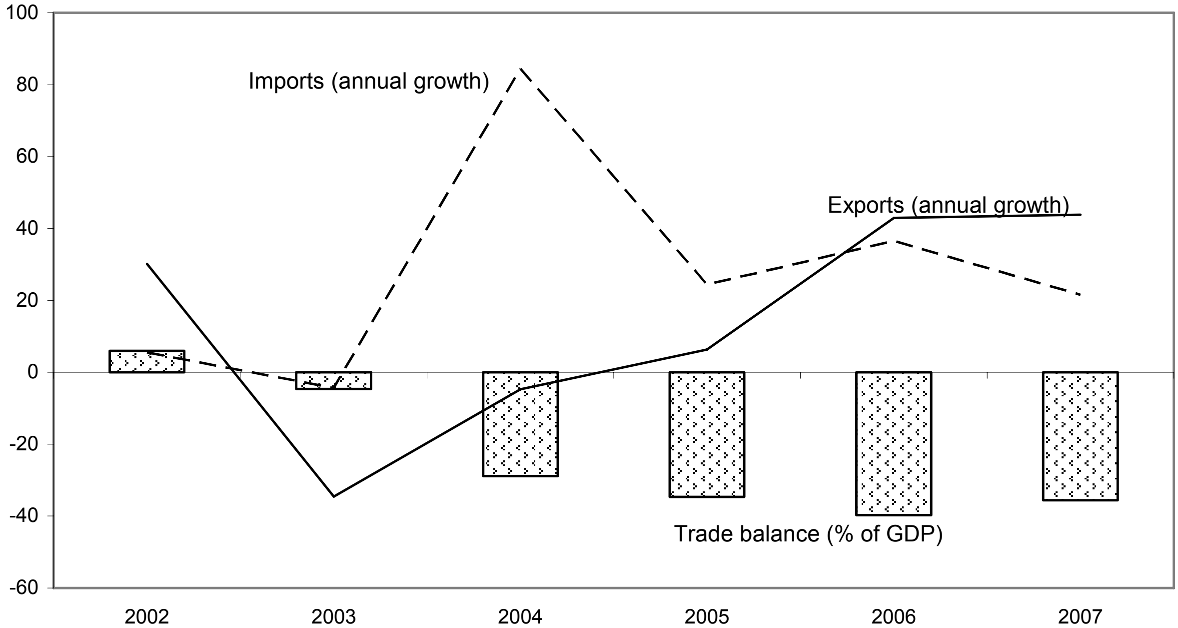
... anchored on broad exchange rate stability



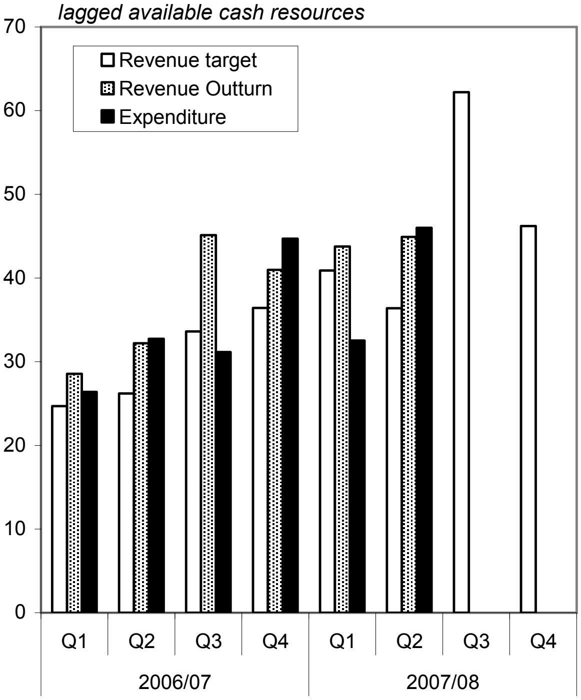
Sources: Liberian authorities; and IMF staff estimates.

Liberia: Selected Economic Indicators, 2002-07 (concluded)

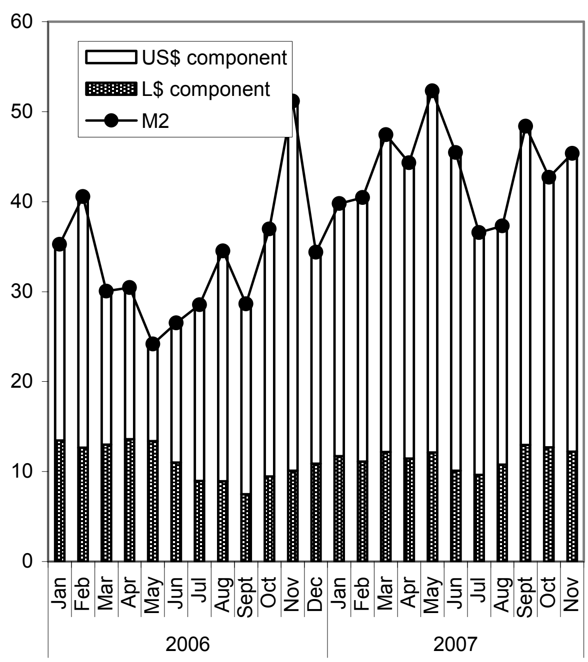
Slower import growth and continued strong export growth contributed to a modest narrowing in the trade deficit



Revenue performance continued to exceed program targets, but expenditure on average lagged available cash resources



Broad money growth rose during the year, but mostly on account of U.S. dollar liabilities (year-on-year growth)



Sources: Liberian authorities; and IMF staff estimates.

6. **The authorities made solid progress in implementing the policies under the SMP through December 2007 (MEFP ¶12).** They achieved all but one of the quantitative benchmarks (Table 1, Appendix I) and are well on the way to achieving the last structural benchmarks (Table 2, Appendix I), although some were met with a delay.[2]

III. The Medium-Term Program

7. **The authorities' poverty reduction strategy, endorsed during the February 2007 Partners Forum, recognizes that a comprehensive policy framework is required to improve welfare and address those factors that have given rise to past political instability.** The interim Poverty Reduction Strategy Paper (I-PRSP) for July 2006-June 2008, and the full PRSP expected to be finalized by mid-2008, focuses on four key issues (MEFP ¶13): (i) enhancing national security; (ii) revitalizing economic growth; (iii) strengthening governance and the rule of law; and (iv) rehabilitating infrastructure and delivering basic services.

8. **The three-year PRGF-EFF supported program requested by the authorities will sustain reforms in core Fund areas as part of an internationally coordinated effort.** The authorities are receiving extensive assistance from donors on security, governance, and rebuilding physical and social infrastructure. Donors are also helping with reforms to support private sector development, starting with agriculture, forestry, and mining.

9. **The main objective of the program is to sustain economic reconstruction by creating a stable macroeconomic environment to underpin rapid economic growth, job creation, poverty reduction, and progress toward the MDGs.** It is guided by the policies underlying the authorities' poverty reduction strategy, and centers on continuing to reinforce economic governance, especially PFM and anticorruption efforts, so that Liberia is ready to exit from the GEMAP once it reaches the HIPC Initiative completion point. It also aims to strengthen revenue administration and the financial sector.

10. **The government's budget will continue to be balanced on a cash basis, and the three-year program does not assume any new domestic or external borrowing.** The authorities indicated that domestic borrowing to finance reconstruction or support economic management will be considered only after resolution of all claims in the recently finalized domestic debt resolution strategy, the expansion of institutional capacity, and drafting of a comprehensive debt management strategy.

[2] The ceiling on CBL expenditure was exceeded by 31 percent because of higher capital expenditure related to the printing of Liberian dollar banknotes; however, the CBL still achieved a surplus of US$1.8 million.

11. **The program will support efforts to strengthen PFM and transparency over the program period (MEFP ¶15-16).**[3] With assistance from FAD, the authorities are developing a comprehensive PFM law to replace the currently fragmented and incomplete legal framework, which will, among other things; (i) clarify and bring up to date the roles and responsibilities across all areas of PFM; (ii) formalize the key stages in budget preparation and prescribe essential elements to be included in budget documents; (iii) comprehensively address all aspects of budget execution, including management of appropriations, commitments and procurement, cash management, internal control, accounting and reporting; and (iv) stipulate deadlines for the production and dissemination of annual accounts and financial statements, as well as external audit reports. Improvements in PFM are expected to encourage donors eventually to offer budget support to help meet poverty reduction objectives through more efficient allocation of resources.

12. **While public revenue has benefited significantly from the authorities' efficiency improvements, the program will aim to further build revenues.** Their program targets an increase in revenues (excluding grants) of about 3 percentage points, to 26½ percent of GDP, as a result of further enhancing tax and customs administration, improving taxpayer compliance, and broadening the tax base.[4]

13. **The monetary policy framework will be strengthened over the medium term by developing new tools for liquidity management.** In this context, the authorities plan to improve coordination between the Ministry of Finance and Central Bank, improve data on the foreign exchange volumes traded in the foreign exchange market, and consider the introduction of deposit auctions. Moreover, efforts will be relaunched to publicize the monetary policy framework. They will also continue to work in the domestic banking sector to improve private access to credit through, e.g., completing the restructuring of banks and bring to final resolution the abandoned and nonoperating banks. With technical assistance (TA) from MCM, the authorities will also work on strengthening banking supervision to ensure that financial institutions are properly regulated. Finally, they plan to establish a modern national payments system to support economic revitalization.

14. **The financial position of the CBL has improved over the past year but needs reinforcement in the medium term.** While the CBL's claims against the government were not discounted under the government's domestic debt strategy, interest rates are significantly below market rates, and a recapitalization of the CBL may be necessary. Consistent with the

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[3] The strategy will be guided by FAD TA and the PEMFAR that the World Bank is currently working on with input from the IMF.

[4] As noted in Country Report No. 07/49, the revenue-to-GDP ratio should be interpreted cautiously because GDP is likely underestimated.

recent safeguards assessment and MCM recommendations, the authorities will continue to improve internal management and financial controls to allow for the eventual exit of the Fund-supported special advisor, who is working with the CBL as part of the GEMAP.[5]

15. **The program assumes that stronger institutions and prudent economic policies will catalyze financial and technical donor support and foreign direct investment (FDI).** The authorities' program is directed to achieving annual average real GDP growth of about 11½ percent through 2010 (Box 1) and keeping inflation in single digits. Liberia's external position is expected to improve over the medium term as export volumes rise and FDI increases, but it is vulnerable to external shocks. The current account deficit excluding grants is expected to be substantial throughout the period, reflecting strong import growth from projects funded by FDI. These flows and official transfers, which is expected to average about $600 million a year through 2011, are expected to help finance the deficit. External debt sustainability is predicated on comprehensive debt restructuring through the HIPC Initiative and beyond-HIPC debt relief.

16. **After years of civil war, Liberia's national statistical capacity is minimal.** Renewed effort is required to complete and implement components of the comprehensive medium-term national statistical plan currently being prepared (MEFP ¶21).

IV. Discussions on The Program for 2008

17. **Following a decade-and-a-half of deteriorating public institutions and governance, the authorities face significant challenges in implementing policies that can begin to improve the welfare of Liberians and support a lasting peace.** The authorities and staff agreed that the measures planned to be taken during the first year of the new program are of macrocritical importance, and are consistent with the authorities' poverty reduction strategy.

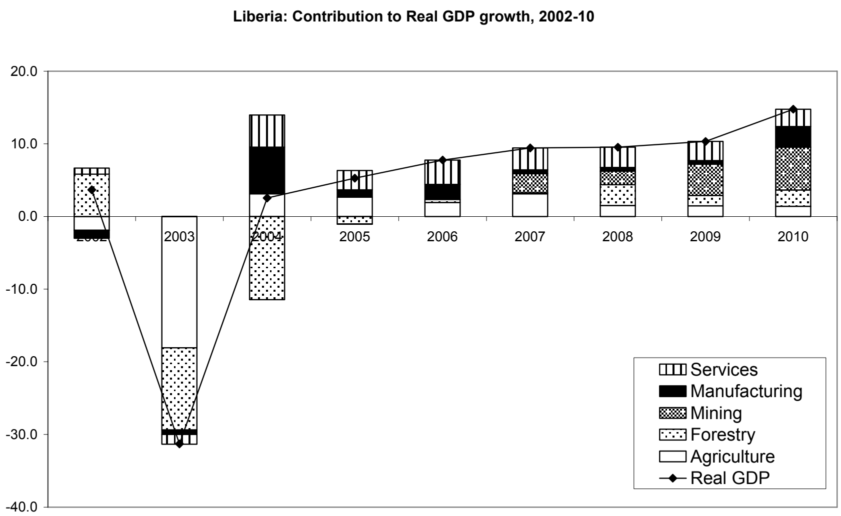
A. Fiscal Policy

18. **The budget for fiscal year 2007/08 projects a deficit of 1.8 percent of GDP, to be financed mostly by the estimated surplus from 2006/07.** The budget, which the legislature revised significantly after the President submitted it, includes a substantial increase in civil service wages; US$3 million (1.5 percent of expenditures) for a county development program

[5] The special advisor assumed his position at the CBL in early February 2008, replacing the previous chief administrator who had resigned in mid-September 2007. The position's title was changed to clarify that binding cosigning authority, consistent with other internationally recruited experts under GEMAP, relates only to financial transactions of the CBL.

Box 1. Liberia: Medium-Term Growth Projections

Real GDP growth in 2008-10 is to be driven by the resumption of diamond, timber, and iron ore production. The lifting of UN sanctions cleared the way for resumption of diamond production (in 2007) and timber exports (2008). Iron ore mining is expected to commence in 2009 and also expand quickly. Throughout the period, the services sector is expected to make a significant contribution to real GDP growth. By 2013, timber, iron ore, and diamond production are projected to reach long-run sustainable output, and the annual growth rate of real GDP is assumed to revert to a long-run average of about 3¾ percent (the average was 3.4 percent for 1961–80).

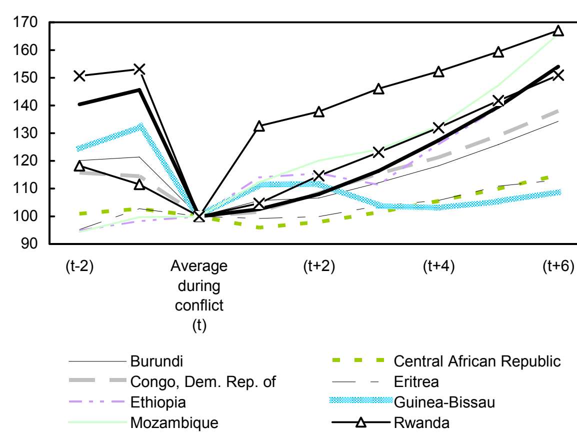


Sources: Liberian authorities, and IMF staff projections.

Liberia's economic recovery is projected to be faster than the average for conflict-affected non-oil-producing sub-Saharan African (SSA) countries. The average growth rate of its real GDP in the first five post-conflict years is projected at 7 percent, compared to the SSA average of 5 percent. Nevertheless, it is expected that Liberia's output will reach preconflict levels only after six years; the SSA average is four years. The longer recovery period reflects the severity of war damage, which is matched only in neighboring Sierra Leone.

Real GDP in Conflict-Affected, Non-oil Exporting, SSA Countries

(Index, Average During Conflict = 100)



Source: IMF World Economic Outlook Database, Liberian authorities, IMF staff projections, and UCDP/PRIO Armed Conflicts Dataset

Note: The start and end-years of the most recent armed conflicts used in the chart are: Burundi (1993–2003); CAR (2001–2003); DR Congo (1997–2002); Eritrea and Ethiopia (1998–2000); Guinea-Bissau (1998–1999); Liberia (2003); Mozambique (1977–1992); Rwanda (1990–2002); Sierra Leone (1991 – 2001).

to be administered by local authorities outside the commitment control system; and a significant increase in appropriations for the legislature. The budget also included $14.3 million (7.2 percent of expenditures) to implement the domestic debt strategy and pay other salary and foreign mission arrears. Spending on health and education increased from 3.8 percent of GDP in 2006/07 to 4.8 percent of GDP in the 2007/08 budget, but declined marginally as a share of total spending. The authorities are planning a supplementary budget using the revenue overperformance in the first half of the fiscal year and a budget support grant from the World Bank. To ensure a balanced cash budget, the authorities will consult closely with staff before they finalize spending proposals.

19. **Revenues are budgeted to increase by over 2 percent of GDP in 2007/08 largely due to a one-time $15 million payment from Arcelor Mittal (1.9 percent of GDP).** Continued efforts to strengthen domestic tax administration, including full implementation of tax identification numbers (TINs), will help sustain gains in income tax revenues (MEFP ¶¶ 24-25). Resumption of timber and diamond production with the lifting of UN sanctions and collection of GSM fees after approval of the telecommunications law will also boost revenues in 2007/08 and over the medium term. The authorities expect that tax policy measures they are considering, such as lowering personal and corporate tax rates and increasing the goods and services tax rate, will not affect revenue until 2008/09.

20. **The commitment control system has ensured that expenditures do not exceed available revenues and that procurement guidelines are being followed, but budget execution could be better.** The authorities' continued emphasis on increasing the capacity of ministries and agencies to draft realistic and prioritized monthly cash plans to guide budget implementation is laudable. However, transfers between budget line items late in the 2006/07 fiscal year resulted in an outturn that differed significantly from the budget approved by the legislature. Staff expressed concern that administration of county development funds outside the interim commitment control system and a pilot program of quarterly transfers to select autonomous ministries and agencies also risk undermining the credibility of the commitment control system, even though strict reporting requirements for these expenditures would allow for adequate monitoring. Interim measures to improve coordination between the Bureau of the Budget and the Ministry of Finance are welcome, but staff emphasized that passage of legislation to merge the Bureau into the Ministry and limit transfers between budget line items is needed to enhance PFM over the medium term.[6]

21. **Fiscal affairs are more transparent, but auditing needs more work.** The Ministry of Finance is posting quarterly fiscal reports on its website, but the authorities agreed that there is a need for more stringent internal and external auditing systems through increasing

[6] Interim measures require that (i) the Budget Committee, chaired by the Minister of Finance, approve all transfers between budget lines and (ii) all major transfers are approved by the President and the legislature.

the capacity of the General Auditing Commission and formulating an internal audit strategy for ministries and agencies. Continued efforts to increase the predictability and transparency of public spending should increase the confidence of donors considering budget support.

22. **A medium-term macrofiscal framework for better budgeting is essential to the success of the poverty reduction strategy and civil service reform.** The composition of spending in the 2007/08 budget indicates the need to ensure that the budget is consistent with the government's medium-term objectives. The increase in current expenditure in 2007/08 is being financed in part by one-off sources of revenues (about 3.7 percent of GDP), so that in 2008/09 capital expenditures will decline as a percentage of GDP. Staff and authorities agreed on the need to increase civil service wages over time, but staff reiterated that the increase should be considered only as part of comprehensive civil service reform and be consistent with fiscal sustainability. Moreover, staff emphasized the importance of finalizing it in time to inform preparation of the 2008/09 budget. The multiyear revenue and expenditure projections being developed as the PRSP is prepared need to be integrated into a reinforced budget preparation process to ensure that the budget is aligned with government priorities; early consultations with the legislature will be essential. Here, a new chart of accounts would be useful in preparing budgets, starting with the 2008/09 budget. The authorities should also continue to collect data on donor flows to ensure that resources are efficiently allocated.

B. Monetary and Exchange Rate Policies and Financial Sector Reforms

23. **The primary objective of monetary policy is price stability; it will continue to be anchored on exchange rate stability.** Monetary policy recognizes that in a highly dollarized and open economy, the exchange rate is the key variable through which monetary imbalances affect prices. The CBL therefore uses the exchange rate as an indicator of domestic monetary conditions and gears its management of Liberian dollar liquidity to keeping the exchange rate relatively stable. Authorities and staff agree, however, that with foreign reserves low, the authorities should not attempt to target a specific level of the exchange rate, or to defend it against downward pressure from exogenous shocks. The authorities agreed on the need to accelerate efforts to strengthen the monetary policy framework (MEFP ¶ 31) and with the staff recommendation to relaunch efforts to publicize monetary policy and regularly disseminate data on economic variables.

24. **The authorities plan to consider promoting dedollarization,**[7] though they agreed that the process should be market–driven and supported by efforts to keep the economy stable, build the banking sector, and establish a record of peace and stability. Staff pointed

[7] Both the Liberian and the U.S. dollar are legal tender. Liberia is highly dollarized; staff estimates that U.S. dollar currency in circulation and deposits accounts for about 95 percent of total broad money.

out some measures that could support demand for the Liberian dollar, such as (i) requiring tax payments and government spending to be made in Liberian dollars; (ii) introducing higher-denomination bank notes; (iii) improving the quality of bank notes; and (iv) reporting public revenue and expenditure in Liberian dollars.

25. **Progress has been made on recapitalizing banks.** This is welcome, particularly since bank claims on the government have been regularized (Table 5). The authorities nevertheless agreed on the need to further improve regulatory oversight by instituting a regular program of onsite inspections and adopting a comprehensive template for offsite inspections. They also agreed on the need to require banks to promptly address identified deficiencies. With regard to the strategy for resolving the status of abandoned and nonoperating banks, staff agreed that with the legal system weak it would be prudent in the short run to consider alternatives, such as publicizing which institutions are currently licensed by the CBL, while over the longer term continuing to seek their liquidation.

26. **The external audit of the CBL's financial accounts for 2006 was completed in August 2007.** While the auditors expressed no opinion, mainly because of the inconsistent application of the CBL's accounting system, the staff welcomed the actions that have been taken to ensure adoption of the International Financial Reporting Standards with effect from the 2008 financial year, as well as the timely selection of the auditor for the 2007 audit as recommended in the interim safeguards assessment. They emphasized the need to complete the CBL safeguards assessment and encouraged the authorities to provide the Fund with the information required to ensure prompt completion.[8]

C. External Sector Policies

27. The external current account deficit excluding grants is projected to widen to about 94 percent of GDP in 2008 with solid growth in imports of goods and services to support increasing economic activity, notably significantly higher FDI. Official transfers are expected to decline to about 29 percent of GDP, resulting in a deficit including grants of 65 percent of GDP. However, the large inflow of FDI into the mining sector in 2007 and the projected increase in 2008 will help finance the current account deficit and support further accumulation of international reserves. In this context, and assuming the full delivery of debt relief through HIPC Initiative, MDRI and beyond-HIPC assistance, as well as possible bilateral and multilateral beyond-HIPC assistance at completion point, Liberia is expected to regain external debt sustainability. The associated reduction in debt service payments, together with the projected evolution of donor support and FDI, would provide Liberia with

[8] A voluntary safeguards assessment that was conducted in October 2006 under the SMP (Country Report No. 07/49, Supplement 1, Appendix I) will form the basis for an update assessment of the CBL that has been initiated in respect of the proposed PRGF and EFF arrangements. A safeguards mission visited Monrovia towards the end of February.

space to meet its remaining debt obligations, and facilitate the rebuilding of its international reserves (Table 7).

28. **The PRGF/EFF-supported program is expected to facilitate comprehensive debt relief, which is critical because Liberia's external debt is unsustainable.**[9] The staff analysis presented in the accompanying HIPC decision point document shows that Liberia is eligible for HIPC debt relief based on end-June 2007 data. At that point, Liberia's debt in net present value terms corresponded to 1,576 percent of exports of goods and services, well above the HIPC threshold of 150 percent. Satisfactory performance under the PRGF/EFF-supported program would pave the way for comprehensive treatment of external debt through HIPC and other debt relief. Liberia is expected to receive debt relief by end-2010 in the context of the HIPC and MDR Initiatives and beyond-HIPC debt relief. This includes financial assistance from other multilateral financial institutions, the Paris Club, and other official bilateral creditors. Liberia also expects to resolve its arrears to private creditors in an agreement which could involve the use of the World Bank's Debt Reduction Facility for IDA-only countries.

29. The low-income country debt sustainability analysis reveals that Liberia is in debt distress, emphasizing the need for debt relief.[10] The NPV of external debt-to-GDP ratio remains above the threshold (30 percent) throughout the projection period, while the NPV of external debt-to-exports ratio moves below the threshold (100 percent) by 2016/17. Liberia's debt service ratios are above their respective thresholds (15 percent for exports and 25 percent for revenues) up to 2017/18. The alternative scenarios and bound tests indicate that the evolution of Liberia's external debt position is subject to considerable vulnerabilities. While the stock of domestic debt at the beginning of the projection period is substantial at around 40 percent of GDP, it does not play a significant role in the debt dynamics since it has been restructured on concessional terms, and new domestic borrowing, assumed to commence after the completion point, averages 1 percent of GDP.

30. **The authorities still face structural and administrative challenges in facilitating external trade.** A diagnostic trade integration study will offer recommendations for addressing bottlenecks in stimulating exports and private sector competitiveness. The authorities also intend to finalize their strategy for phased adoption of a tariff regime consistent with the ECOWAS common external tariff (CET) and begin studying the economic impact of an Economic Partnership Agreement with the European Union.

[9] See the accompanying staff report: Liberia – Enhanced HIPC Decision Point Document.

[10] Liberia has not yet been rated under the World Bank's Country Policy and Institutional Assessment – for the purpose of this analysis, staff assumed a weak policy rating.

D. Other Structural Reforms

31. **Efforts to improve governance will continue**. Since a national anticorruption strategy was adopted in 2006, legislation establishing an independent anticorruption commission has been submitted to the legislature. With donor assistance the authorities are preparing an operational and financial plan for establishing the commission once the legislation is passed. In July 2007 the government launched the Liberia Extractive Industries Transparency Initiative (LEITI) to ensure transparency and accountability in allocation and exploitation of natural resources. All financial flows from natural resource exploitation will be reconciled by an independent administrator, externally audited, and published.[11]

32. **The government's policies in support of private sector development emphasize putting in place, with donor assistance, solid regulation to better manage natural resources and increase agricultural productivity.** In agriculture, efforts are aimed at increasing yields and building planning and monitoring capacity in the Ministry of Agriculture. In forestry, efforts are aimed at implementing the new forestry law and finalizing arrangements for commodity and expenditure tracking systems. Auctions of timber sales and forest management contracts are expected to begin in the current fiscal year. Efforts are underway to draft a national mineral policy and a legal and fiscal minerals framework. With assistance from the World Bank, the authorities have established a Public-Private Sector Dialogue on legal and regulatory reforms, strengthening public and private sector capacity, and improving infrastructure services and access to finance.

33. **With assistance from international partners, efforts to rebuild infrastructure continue.** Some progress has been made in restoring electricity generation capacity in Monrovia and rehabilitating roads, health facilities, and schools, but continued donor support is necessary to ensure that infrastructure rebuilding supports the authorities' growth-enhancing policies.

E. Technical Assistance and Capacity Building

34. **Liberia must continue to rely on donor assistance to address significant capacity constraints.** The authorities have received comprehensive assistance from donors to rebuild capacity to formulate and implement policy, especially in statistics (Box 2). Further assistance from donors, especially financial support, in the first year of the program is important to support the authorities' efforts to, e.g., complete and implement a comprehensive civil service reform strategy and set up the anticorruption commission.

[11] There is a dedicated website: www.eitiliberia.org.

Box 2. Liberia: Summary of Technical Assistance from Donors

Since the end of the civil war in 2003 Liberia has received extensive TA from numerous donors in such areas as monetary and fiscal policy, financial sector reform, civil service reform, auditing, statistics, governance, and judiciary and security sector reform. Donors include the United Nations, European Union, IMF, World Bank, African Development Bank, Economic Community for West African States, United States, and United Kingdom.

The GEMAP has placed resident advisors with cosigning authority at key ministries, state-owned enterprises (SOEs), and the CBL, including (i) the Ministries of Finance and of Lands, Mines and Energy; (ii) CBL; (iii) Bureau of the Budget; (iv) National Port Authority; (v) Roberts International Airport; (vi) Petroleum Refining Corporation; and (vii) Forestry Development Agency. The goal of these advisors is to help establish transparent financial management systems and build local capacity.

The IMF has provided TA on (i) fiscal policy—PFM, tax policy, natural resource taxation, and tax and customs administration; (ii) monetary policy—the monetary policy framework, bank supervision, central bank accounting, national payments system, and micro finance institutions; and (iii) statistics—fiscal and monetary, national accounts, consumer prices, and balance of payments.

Other partners have provided TA to support the authorities' efforts to strengthen governance, the judiciary, and capacity for public policy through the Governance Commission, General Auditing Commission, Civil Service Agency, and the Ministries of Justice, Defense, Police, Agriculture, Commerce, Lands, Mines and Energy, Education, and Health.

V. Access, Program Monitoring and Risks

35. **In addition to the amounts from the PRGF and EFF that are necessary to repay the bridge loan used to clear arrears to the Fund (SDR 543 million), PRGF access is proposed at SDR 38.76 million—30 percent of Liberia's quota.** This level of access is in line with average additional access provided in past arrears clearance operations for PRGF-eligible countries. It reflects Liberia's balance of payments needs, minimal reserves, the strength of the program, and Liberia's capacity to repay the Fund.[12] The additional access

[12] Liberia's capacity to repay the Fund is contingent on the timely provision of HIPC interim assistance and completion point and beyond-HIPC debt relief. Assuming that Liberia performs satisfactorily under the PRGF and extended arrangements, there is limited risk from Liberia's failure to repay the Fund (see the forthcoming paper on *Liberia—Assessments of the Risks to the Fund and the Fund's Liquidity Position*). In this regard, the authorities' strong commitment to program implementation, as demonstrated by its track record of policy implementation under the SMPs, helps to mitigate risk associated with the repayment of its obligations to the Fund.

would be used primarily to build up reserves at the CBL. The disbursement schedule for the additional access is slightly frontloaded (Table 7); the authorities have stated their intention to place the initial disbursements in Liberia’s SDR account at the Fund to rebuild its SDR holdings to its net cumulative SDR allocation of SDR 21.0 million and thus limit the incurrence of net SDR charges.

36. For refinancing the bridge loan, SDR 200.3 million (155 percent of quota) would be drawn from PRGF resources and SDR 342.8 million (265 percent of quota) under an extended arrangement. Access under the extended arrangement exceeds the annual limit of 100 percent of quota that applies for arrangements within the GRA, and this request is based on the exceptional circumstances of Liberia's large need that cannot be met through the limited resources of the PRGF. The entire amount of the extended arrangement will be available in the first purchase, and if drawn as expected, the extended arrangement will lapse. This unusual structure reflects the up-front nature of Liberia's financing requirement to repay the bridging loan; program monitoring will continue under the three-year PRGF arrangement.

37. **The proposed access is consistent with Liberia’s capacity to repay the Fund.** Assuming that Liberia reaches the HIPC completion point in 2010, it would receive 100 percent relief on eligible Fund debt, and projected repayments to the Fund would peak in 2018 at 2.1 percent of fiscal revenue (excluding grants) and 0.7 percent of exports of goods and services (Table 8).

38. **The first year of the program will cover the period through December 2008.** The program will be monitored on the basis of biannual quantitative performance criteria for June 30 and December 31, 2008, and indicative targets for March 31 and September 30, 2008 (Table 3 and 4, MEFP). Structural conditionality is consistent with the government’s I-PRSP.

39. **Although the authorities are firmly committed to reform, there are considerable risks ahead.** They relate to continued significant capacity constraints and the need for the cooperation of the opposition-led legislature. A number of structural benchmarks in the first year of the program require the support of donors.

40. **Liberia’s statistical capacity is weak, and serious data deficiencies hamper surveillance.** However, with Fund TA (Box 2), the authorities have commenced efforts to improve data production and dissemination, particularly monetary and fiscal statistics, and the staff believe that these are adequate to monitor program implementation.

VI. Staff Appraisal

41. **The staff considers that implementation of the SMP through December 2007 was broadly satisfactory and met the standard of upper credit tranche conditionality,** with the exception of the continued accrual of external payments arrears. Most of the quantitative

benchmarks were achieved. Improved tax and customs administration and enforcement of the tax code allowed the government to continue exceeding revenue targets by wide margins; while rigorous implementation of the commitment control system has ended the past practice of financing expenditures through domestic arrears. The challenge for the government now is to ensure that its expenditure targets are achieved without weakening procedures for approving, controlling, and monitoring spending.

42. **Most of the SMP structural benchmarks were achieved, though some with a delay.** Staff welcomes the progress in reinforcing commercial banks, improving CBL accounting and audit procedures, drafting legislation to establish an independent anti-corruption commission, merging the Bureau of Budget into the Ministry of Finance, limiting budget transfers without legislative approval, revising the investment code, and tightening the administrative procedures law. It is now critical that the legislature act on these proposals to ensure that program momentum is not lost. Because statistical data are weak, it is also important to quickly finalize the medium-term statistics plan, an outstanding benchmark for last December.

43. **While CBL expenditures in 2007 exceeded the ceiling agreed for the SMP, the bank did record a surplus and met the target for increasing its foreign assets.** Unexpectedly high CBL income reflected the slow pace at which the government spent U.S. dollars, which allowed the CBL to receive much more interest income on government deposits held abroad. It will be important to ensure that the CBL budget remains balanced and the CBL continues to meet its targets for foreign assets even if interest income falls when the planned pick-up in government spending draws down government balances.

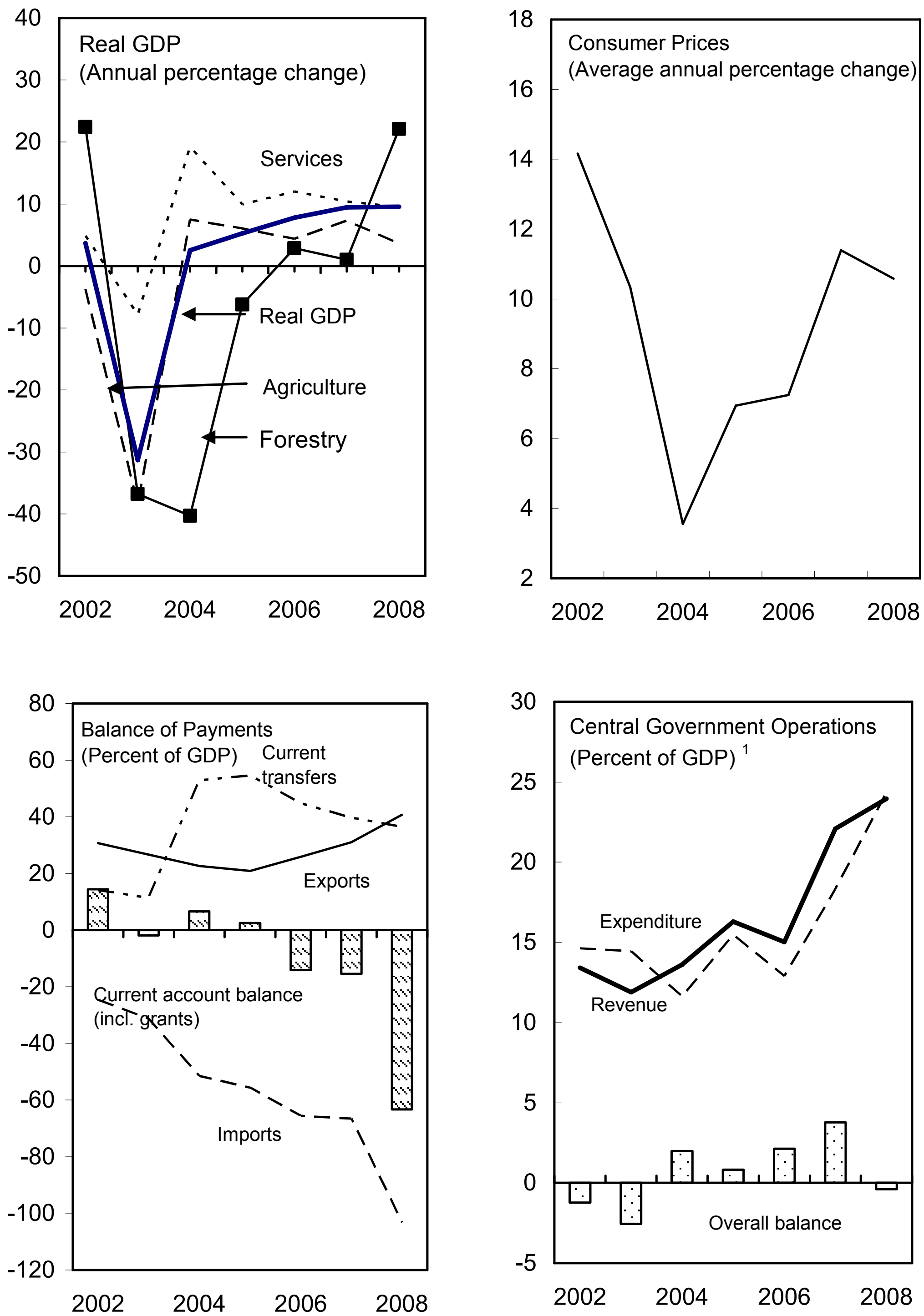
44. **Inflation remains in double digits, mainly because of higher food and oil prices.** Because the current highly dollarized environment allows only limited scope for active monetary policy, meeting medium-term inflation objectives will require further efforts to improve monetary policy and strengthen financial sector balance sheets and supervision. While the government has indicated a desire to encourage use of Liberian dollars, dedollarization should be a market-driven process supported by continued economic stability, a sounder banking sector, and a track record of peace and stability.

45. **The program for 2008-10 is ambitious.** It builds on successes achieved in the SMP. The authorities have made a welcome commitment to a balanced cash-based budget, with no external or domestic borrowing until at least all domestic claims have been resolved, there is a clear debt management strategy, and the necessary institutions have been built up. The focus on further improving PFM, building the financial sector, and implementing the anti-corruption strategy is not only appropriate, it could also help attract more donor support, especially for the budget. The debt sustainability analysis in the accompanying HIPC Decision Point document makes clear the risks associated with new borrowing. Staff would stress the need for donor support to be as much as possible on grant terms.

46. **Repaying the bridge loan needed to clear Liberia's arrears to the Fund requires exceptional access under both the PRGF and EFF.** The staff considers an upfront disbursement of the entire amount under the EFF to be appropriate in view of large financing requirements for clearing arrears.

47. **If the program is to continue to be successful, prompt action on key legislation is necessary, as is technical and financial support from donors.** While the PRGF/EFF program is subject to considerable risks, the authorities deserve the support of the international community. The Fund-supported program is a pillar of the reform program needed for Liberia to qualify for debt relief

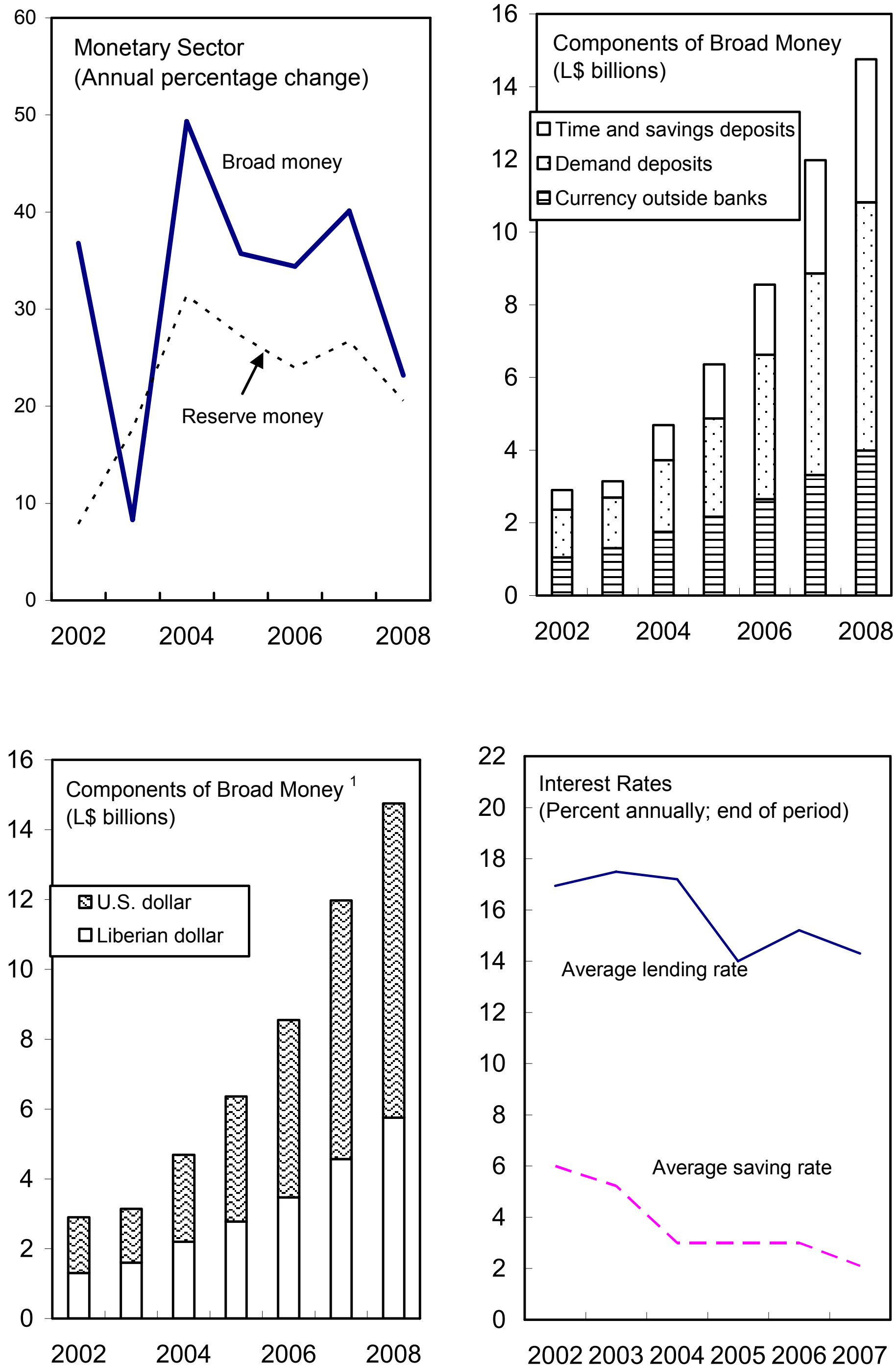
Figure 1. Liberia: Selected Economic Indicators, 2002-08



Sources: Liberian authorities; IMF staff estimates and projections.

[1] Fiscal year (July-June).

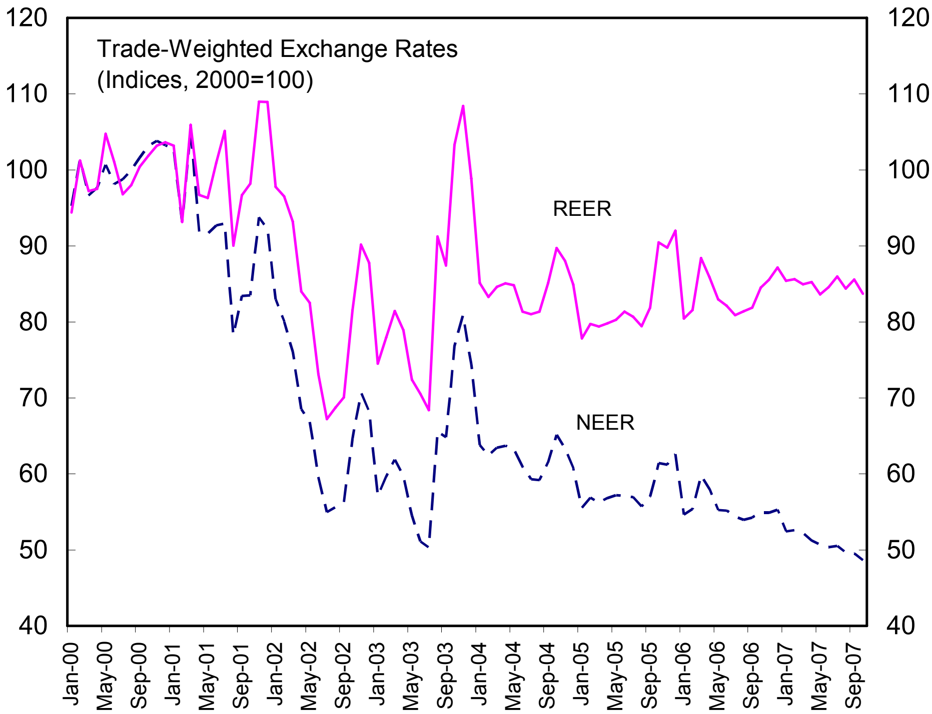
Figure 1. Liberia: Selected Economic Indicators, 2001-07 (concluded)

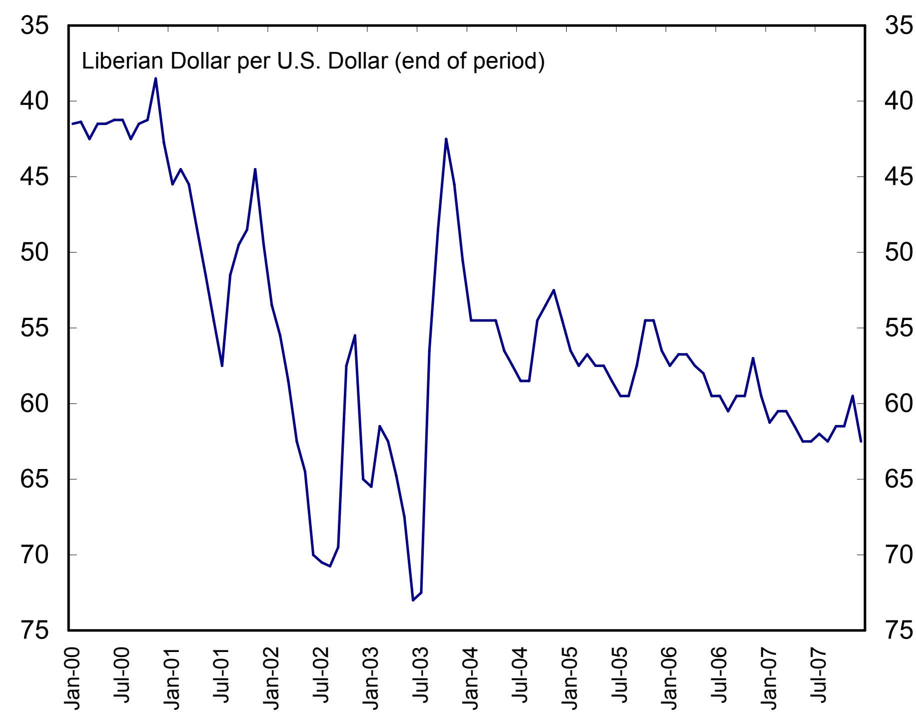


Sources: Liberian authorities; and IMF staff estimates and projections.

[1] Percent of total money supply.

Figure 2. Liberia: Exchange Rate Developments, January 2000-December 2007





Sources: Liberian authorities; IMF staff estimates and projections.

Table 1. Liberia: Selected Economic and Financial Indicators, 2006–10

	2006 Est.	2007 Est.	2008 Proj.	2009 Proj.	2010 Proj.
	(Annual percentage change, unless otherwise indicated)				
National income and prices					
Real GDP	7.8	9.5	9.6	10.3	14.8
Consumer prices (annual average) [1]	7.2	11.4	10.6	9.0	8.0
Consumer prices (end of period) [1]	8.9	11.7	9.5	8.5	7.5
Nominal GDP (US$ millions)	611.6	732.2	818.2	916.8	1,082.6
GDP deflator (US$)	7.4	9.4	2.0	1.6	2.9
Real GDP per capita (constant 1992 US$) [2]	121.0	126.4	131.7	138.6	152.5
External sector (US$)					
Exports of goods, f.o.b.	43.0	43.8	46.8	49.3	52.7
Imports of goods, f.o.b.	36.5	21.6	73.2	16.5	11.3
Terms of trade (deterioration -)	49.1	-0.7	-4.0	-2.5	7.2
Official exchange rate (L$/US$; end of period)	59.5	62.5	...	...	...
Nominal effective exchange rate (end of period)	-11.6	...	...	...	...
Real effective exchange rate (end of period)	-5.3	...	...	...	...
Central government operations [3]					
Total revenue and grants	6.5	73.3	25.2	19.4	23.1
Of which : total revenue	6.6	73.6	26.5	14.0	23.3
Total expenditure and net lending	-3.7	67.4	53.4	68.8	15.7
Of which : current expenditure	2.2	58.4	57.6	77.5	8.7
capital expenditure	-40.7	164.1	26.7	-0.6	114.7
	(Annual percentage change; beginning-period stock of money, unless otherwise indicated)				
Money and banking					
Net foreign assets	61.7	-23.2	-39.5	-17.4	395.2
Net domestic assets	-27.3	63.3	62.6	37.9	-370.2
Net claims on government	-18.9	73.3	64.1	39.7	-370.5
Claims on nongovernment	17.3	16.4	1.5	7.4	9.3
Other items net	-25.7	-26.5	-3.0	-9.2	-9.0
Broad money (M2) [4]	34.4	40.1	23.2	20.4	25.0
Velocity (GDP relative to broad money)	4.3	3.8	3.8	3.8	3.8
Reserve money	23.9	26.7	20.6	21.4	24.5
Broad money (stocks, L$ billions)	8.5	12.0	14.8	17.8	22.2
Liberian dollar component	3.5	4.6	5.8	7.0	8.7
U.S. dollar component	5.1	7.4	9.0	10.8	13.5
	(Percent of GDP)				
Central government operations [3]					
Total revenue and grants	15.0	22.1	24.0	25.6	27.3
Of which : total revenue	14.8	21.9	24.0	24.4	26.1
Total expenditure and net lending	12.9	18.3	24.3	36.7	36.8
Of which : current expenditure	11.8	15.8	21.6	34.3	32.3
capital expenditure	1.1	2.5	2.7	2.4	4.5
Overall fiscal balance	2.1	3.8	-0.4	-11.2	-9.6
External sector					
Current account balance, including grants (deficit, -)	-37.3	-34.9	-64.6	-63.4	-41.3
Of which : public interest payments due	-23.2	-19.5	-11.5	-11.3	-9.7
Current account balance, excluding grants (deficit, -)	-72.2	-66.2	-93.6	-86.8	-61.9
Trade balance (deficit, -)	-39.7	-35.6	-62.4	-53.0	-31.0
Exports, f.o.b.	25.8	31.0	40.7	54.3	70.2
Imports, f.o.b.	-65.6	-66.6	-103.2	-107.3	-101.1
Public sector external debt outstanding (total)	822.8	645.3	576.0	513.2	9.5
	(Millions of U.S. dollars, unless otherwise indicated)				
Current account balance including grants (deficit, -)	-228.4	-255.4	-528.9	-580.8	-447.0
Trade balance (deficit, -)	-243.1	-260.5	-510.9	-486.2	-335.1
Gross official reserves	46.2	85.1	91.6	119.8	147.5
(months of imports of goods and services)	1.0	1.5	1.0	1.1	1.2

Sources: Liberian authorities; and IMF staff estimates and projections.

[1] The Monrovia CPI was replaced in February 2007 with a more comprehensive Harmonized CPI.
[2] The U.S. dollar-denominated GDP deflator is derived mainly from the change in the domestic CPI, the L$/US$ exchange rate, and international commodity prices in a few selected sub-sectors.
[3] Fiscal year basis (July-June). Commitment basis starting in 2006/07.
[4] Defined as Liberian currrency outside banks plus demand, time, and savings deposits in Liberian and U.S. dollars.

Table 2. Liberia: Balance of Payments, 2006-10

	2006 Est.	2007 Est.	2008 Proj.	2009 Proj.	2010 Proj.
	(Millions of U.S. dollars, unless otherwise indicated)				
Trade balance	-243	-260	-511	-486	-335
Exports, f.o.b.	158	227	333	498	760
Of which : rubber	150	206	208	198	186
timber	0	0	55	84	136
iron ore	1	0	0	69	249
Imports, f.o.b	-401	-487	-844	-984	-1,095
Of which : petroleum	-98	-141	-187	-202	-229
rice	-57	-64	-68	-74	-79
Services (net)	-91	-111	-152	-192	-144
Income (net)	-168	-175	-165	-180	-254
Of which: public interest payments due [1]	-142	-143	-94	-103	-105
Current transfers (net)	274	291	298	277	286
Donor transfers (net) [2]	213	230	237	215	223
Private transfers (net)	60	61	62	62	63
Current account balance	-228	-255	-529	-581	-447
Current account balance, excluding grants	-442	-485	-766	-796	-670
Capital and financial account	96	117	442	486	347
Official financing	-5	-5	-9	-10	-19
Disbursements	0	0	0	0	0
Amortization [3]	-5	-5	-9	-10	-19
Private financing	101	122	451	496	365
Foreign direct investment [4]	6	120	397	407	339
Other investment (incl. errors and omissions)	95	2	54	89	26
Overall balance	-133	-138	-87	-95	-64
Financing	133	138	18	41	64
Change in net international reserves (increase -)	-15	-10	-12	-15	-19
Change in gross reserves	-38	-39	-7	-28	-28
Liabilities	23	28	-6	14	9
Of which : use of Fund credits, existing and prospective (net)	-1	-1	22	18	-858
Purchases and loans	0	0	878	18	14
Repayments	-1	-1	-856	0	-872
Arrears (accrual +) [5]	148	-516	-3,869	0	0
Prospective debt relief and rescheduling [6]	0	665	3,900	55	83
Financing gap [7]	0	0	68	54	36
Memorandum items:					
Current account balance (percent of GDP):					
Including grants	-37.3	-34.9	-64.6	-63.4	-41.3
Excluding grants	-72.2	-66.2	-93.6	-86.8	-61.9
Excluding grants and public interest payments due	-49.0	-46.7	-82.1	-75.5	-52.2
Trade balance (percent of GDP)	-39.7	-35.6	-62.4	-53.0	-31.0
Donor transfers (net) (percent of GDP)	34.9	31.3	28.9	23.5	20.6
Public sector external debt (medium- and long-term)					
Debt outstanding, including arrears	5,032	4,725	4,713	4,705	103
(percent of exports of goods and services)	2,310	1,508	1,024	685	10
(percent of GDP)	823	645	576	513	9
Debt service charges	1	1	4	4	4
(percent of GDP)	0.2	0.2	0.5	0.4	0.4
Terms of trade (1997=100)	211.9	210.3	201.9	196.8	211.0
Gross official reserves	46	85	92	120	147
Gross official reserves (months of imports of goods and services)	1.0	1.5	1.0	1.1	1.2
Gross official reserves (months of nondonor imports)	1.3	1.8	1.1	1.2	1.2
GDP at current prices	612	732	818	917	1,083

Sources: Liberian authorities; and IMF staff estimates and projections.

[1] Up to 2007 interest payments are charged on total stock of debt. After 2007, they are charged on debt stock after application of traditional debt relief mechanisms.

[2] Donor inflows in the first few years after 2007 are expected to be affected by the projected reduction in UNMIL operations and also reflect a change from humanitarian to development assistance. The latter implies a lower pass-through of donor assistance into the domestic economy.

[3] Starting in 2008, reflects payments after application of traditional debt relief mechanisms.

[4] Starting in 2007, reflects investments in the mineral sector.

[5] Assumes arrears to the WB and AfDB are cleared in December 2007 and to the Fund in March 2008.

[6] Includes 100 percent of WB and AfDB arrears as of Dec. 2007; and MDRI assisitance in end-2010. For the remaining years it reflects HIPC assistance. For 2008, prospective debt relief amounts to US$31 million from HIPC assistance.

[7] Assumed to be financed by deferral of payments to official bilateral, commercial and multilateral creditors.

Table 3. Liberia: Summary of Central Government Operations, 2005/06-2010/11

	2005/06 actual	2006/07 actual	2007/08 Jul.-Jun. budget	2008/09 proj.	2009/10 proj.	2010/11 proj.
			(Millions of U.S. dollars)			
Total revenue and grants	85.6	148.3	185.7	221.7	272.9	329.8
Total revenue	84.6	146.8	185.7	211.7	261.1	315.9
Tax revenue	81.0	140.0	149.5	186.1	222.2	260.9
Taxes on international trade and transactions	35.3	69.9	70.1	91.1	111.1	132.3
Taxes on income	25.1	42.5	48.6	55.9	66.0	77.6
Taxes on goods and services	20.3	26.1	26.9	37.0	41.9	47.4
Of which: maritime revenues	12.1	11.8	13.0	15.6	17.2	18.9
Other	0.3	1.4	3.8	2.1	3.1	3.7
Of which: overdue tax collection	0.0	0.5	2.6	0.0	0.0	0.0
Nontax revenue	3.6	6.9	36.2	25.6	38.9	55.0
Of which: stumpage fees and land rental	0.0	0.1	2.2	6.3	11.1	17.1
Of which: GSM fees	0.0	0.0	5.6	8.6	8.6	8.6
Of which: Mittal Arcelor Steel comm. dev. fund	0.0	0.0	3.0	3.0	3.0	3.0
Of which: Mittal Arcelor Steel royalty	0.0	0.0	0.0	0.0	7.5	16.2
Of which: one time payment from Mittal Arcelor Steel	0.0	0.0	15.0	0.0	0.0	0.0
Grants	1.0	1.5	0.0	10.0	11.8	13.9
Total expenditure and net lending	73.5	123.0	188.7	318.5	368.4	444.1
Current expenditure	67.2	106.4	167.6	297.5	323.4	372.7
Wages and salaries	32.5	40.6	67.5	75.8	87.4	105.0
Goods and services	22.0	46.1	59.8	68.9	84.9	108.6
Interest on debt	1.4	0.5	7.6	118.5	115.0	121.1
External [1]		0.0	3.9	114.8	111.3	117.3
Domestic [2]	1.4	0.5	3.7	3.7	3.6	3.8
Subsidies, transfers, and net lending	11.2	19.1	32.7	34.4	36.1	37.9
of which: county/community development funds		2.5	6.0	6.0	6.0	6.0
Capital expenditure	6.3	16.6	21.1	21.0	45.0	71.5
Overall surplus or deficit [3]	12.1	25.3	-3.0	-96.8	-95.5	-114.4
Total Financing	-8.5	-25.3	3.0	96.8	95.5	114.4
Foreign borrowing (net)	-1.1	-1.2	0.0	110.9	107.4	122.9
Project loans			0.0	0.0	0.0	11.8
Exceptional financing	-1.1	-1.2	0.0	110.9	107.4	111.1
Payment of external arrears (-)	-1.1	-1.2	0.0	0.0	0.0	0.0
of which: Payment to IFIs (-)	-1.1	-1.2	0.0	0.0	0.0	0.0
Principal payments after traditional mechanisms	n.a.	n.a.	n.a.	0.0	0.0	0.0
HIPC debt relief	n.a.	n.a.	n.a.	57.7	54.6	94.6
Other debt relief and rescheduling [4]	n.a.	n.a.	n.a.	53.1	52.8	16.5
Domestic borrowing (net)	-7.5	-24.1	3.0	-14.1	-11.9	-8.5
Nonmonetary sector			-2.2	-6.6	-0.2	5.8
Exceptional financing	-7.5	-24.1	5.2	-7.5	-11.7	-14.3
Payment of domestic arrears (-) [5]	-7.5	-10.5	-8.5	-7.5	-2.5	-2.5
Accumulation in domestic debt trust fund (-)	0.0	0.0	0.0	0.0	-9.2	-11.8
Accumulation in GOL balance at CBL (-)	n.a.	-13.7	13.7	0.0	0.0	0.0
memo item:						
Stock of domestic debt (percent of GDP)		42.9	36.6	31.8	27.5	25.0
			(Percent of GDP, unless otherwise indicated)			
Total revenue and grants	15.0	22.1	24.0	25.6	27.3	28.1
Total revenue	14.8	21.9	24.0	24.4	26.1	26.9
Grants	0.2	0.2	0.0	1.2	1.2	1.2
Total revenue (excl. one time payment from Mittal Arcelor	14.8	21.9	21.6	24.4	26.1	26.9
Total expenditure and net lending	12.9	18.3	24.3	36.7	36.8	37.8
Current expenditure	11.8	15.8	21.6	34.3	32.3	31.7
Of which: wages and salaries	5.7	6.0	8.7	8.7	8.7	8.9
Capital expenditure	1.1	2.5	2.7	2.4	4.5	6.1
Overall surplus or deficit (incl. grants)	2.1	3.8	-0.4	-11.2	-9.6	-9.7

Sources: Liberian authorities; and Fund staff estimates and projections.

[1] Starting in 2008/09, this represents debt service due after traditional debt relief mechanisms. Payments on external debt during the interim period are assumed to remain at pre-decision point level of US$3.9 million.

[2] Contributions to the domestic debt trust fund are reported as a financing item.

[3] The 2007/08 budget projects a deficit of $13.7 million (1.8 percent of GDP) on a commitment basis financed by the carryover of the 2006/07 fiscal surplus. For 2008/09 and 2009/10, budgets are assumed to be balanced on a cash-basis, with borrowing projected to start in 2010/11. Non-zero fiscal balances reported for 2008/09 and 2009/10 are due to some budget expenditures, including payment of arrears, amortization and payments to the domestic debt trust fund, being reported as financing items; actual budget expenditures on external debt service of $3.9 million per year are equal to the difference between external debt service falling due and debt relief and rescheduling assumed to be provided.

[4] Amount of debt relief expected beyond traditional mechanisms to bring external debt payments to budgeted level of $3.9 million during

[5] Includes pre-NTGL wage and foreign mission arrears.

Table 4. Liberia: Monetary Survey, 2006-10

	2006 Dec.	2007 Dec.	2008 Dec. Proj.	2009 Dec. Proj.	2010 Dec. Proj.
	(Millions of L$, unless otherwise indicated)				
Net foreign assets	-45,248	-47,233	-51,958	-54,531	15,673
Of which : Fund credit and overdue charges	-50,846	-57,410	-63,964	-69,967	-3,848
CBL's gross foreign reserves	4,281	7,457	8,936	11,970	15,456
assets corresponding to government US$-denominated deposits at CBL	1,445	3,133	1,698	1,819	1,929
assets corresponding to commercial banks' US$ deposits at CBL	1,531	2,141	2,715	3,257	4,079
CBL's net foreign exchange position	1,293	2,183	3,025	4,079	5,545
Net domestic assets	53,797	59,210	66,711	72,295	6,529
Net domestic credit	69,488	77,163	85,023	91,970	27,804
Net claims on government	65,390	71,659	79,341	85,194	19,374
Of which : Fund credit and overdue charges	50,846	57,410	63,964	69,967	3,848
Claims on private sector	3,080	4,503	5,469	6,562	8,218
Claims on public enterprises	147	132	132	132	132
Claims on nonbank financial institutions	90	81	81	81	81
Claims on nongovernment	4,098	5,503	5,682	6,775	8,431
Other items, net	-15,691	-17,953	-18,313	-19,674	-21,275
Monetary aggregates					
Currency outside banks (Liberian banknotes and coins only)	2,648	3,317	3,988	4,847	6,028
Commercial bank reserves at Central Bank of Liberia [1]	420	502	618	741	928
Of which : required reserves	208	317	388	465	583
Reserve money [2]	3,233	4,096	4,938	5,993	7,459
Commercial bank deposits [3]	5,901	8,660	10,765	12,917	16,175
Total demand deposits	3,973	5,542	6,828	8,194	10,260
L$-denominated deposits	342	524	734	881	1,103
US$-denominated deposits	3,631	5,018	6,094	7,313	9,157
Time, savings, and other deposits	1,928	3,118	3,936	4,723	5,915
L$-denominated deposits	484	724	1,029	1,235	1,546
US$-denominated deposits	1,444	2,394	2,907	3,488	4,368
Broad money (M2) [4]	8,549	11,977	14,753	17,764	22,203
L$ component	3,473	4,566	5,751	6,963	8,677
US$ component	5,075	7,411	9,001	10,801	13,525
Memorandum items:					
US$ component broad money (excluding banknotes, millions of US$)	85.3	118.6	132.5	148.5	175.3
US$ component of broad money (percent of broad money, excluding banknotes)	59.4	61.9	61.0	60.8	60.9
US$-denominated demand deposits (millions of US$)	61.0	80.3	89.7	100.5	118.7
US$-denominated time, saving, and other deposits (millions of US$)	24.3	38.3	42.8	48.0	56.6
Broad money (annual change)	34.4	40.1	23.2	20.4	25.0
L$ component broad money (percent of beginning period broad money)	10.9	12.8	9.9	8.2	9.6
US$ component broad money (percent of beginning period broad money)	23.5	27.3	13.3	12.2	15.3
Currency in circulation (annual change)	18.3	27.7	20.2	21.6	24.3
Reserve money (annual change)	23.9	26.7	20.6	21.4	24.5
Credit to central government (annual change)	-1.8	9.6	10.7	7.4	-77.3
Credit to private sector (annual change)	49.2	46.2	21.5	20.0	25.2
CBL's net foreign exchange position (millions of US$)	21.7	32.1	44.5	59.0	78.0
Money Multiplier	2.6	2.9	3.0	3.0	3.0
Velocity (GDP relative to broad money)	4.3	3.8	3.8	3.8	3.8
Currency/deposits (percent; L$ only)	321	266	226	229	227
Nominal GDP	36,389	45,764	55,582	66,693	83,516

Sources: Liberian authorities; and IMF staff estimates.

[1] Derived from commercial banks' balance sheets (Liberian dollar denominated).
[2] Liberian dollar currency outside banks and commercial banks reserves (Liberian dollar denominated) held at central bank.
[3] Excluding one bank since May 2003.
[4] Excluding U.S. dollars in circulation.

Table 5. Liberia: Core Set of Financial Soundness Indicators, 2003-07
(Percent, unless otherwise indicated)

	2003 Dec	2004 Dec	2005 Dec	2006 Dec	2007 Dec
Number of banks	3	3	5	5	6
Capital adequacy					
Regulatory capital to risk-weighted assets	-2.0	-4.4	2.3	12.3	22.7
Asset quality					
Nonperforming loans to total loans	62.0	23.8	15.5	42.4	19.2
Loan loss provisions to nonperforming loans	94.0	79.0	97.0	53.9	86.6
Loan concentration					
Agriculture	9.2	8.0	10.6	7.1	6.6
Mining and Quarrying	0.0	0.0	0.1	0.0	0.0
Manufacturing	0.4	0.7	0.5	1.1	1.1
Construction	2.6	2.3	2.7	5.9	7.9
Transportation, Storage and Communication	0.2	1.8	4.4	4.1	2.8
Trade, Hotels and Restaurants	10.0	19.1	13.5	18.8	12.0
Others	77.7	68.0	68.1	62.9	69.8
Services	1.0	1.8	6.7	4.2	15.7
Personal	4.3	5.4	5.6	10.3	13.5
Government of Liberia	28.4	25.6	27.2	18.7	16.1
Central Bank of Liberia	30.7	27.7	26.8	20.4	17.6
Public corporations	2.2	6.3	1.7	0.7	1.2
Others	11.0	1.3	0.1	8.6	5.7
Earnings and profitability					
Return on assets	-24.0	-3.0	0.5	-0.5	0.2
Return on equity	-32.5	-32.6	3.2	-4.1	1.5
Noninterest income to total income	81.0	84.8	81.4	75.8	71.7
Net interest margin	2.0	1.4	1.8	8.3	8.6
Liquidity					
Liquid assets to net assets	51.0	40.0	17.8	60.0	56.5

Source: Central Bank of Liberia.

Table 6. Liberia: External Financing Requirements and Sources, 2006-2011
(US$ millions)

	Est.	Prelim.	Projections		
	2006	2007	2008	2009	2010
I. Total financing requirement	314	1,017	5,512	820	1,580
Current account (excluding donor grants)	442	485	766	796	670
Amortization	5	5	865	10	891
Of which: IMF	1	1	856	0	872
Change in reserves (increase = +)	15	10	12	15	19
Reduction in arrears	-148	516	3,869	0	0
II. Available financing	314	352	688	711	588
Current donor transfers	213	230	237	215	223
Foreign direct investment	6	120	397	407	339
Short-term private financing flows	0	0	0	0	0
Official medium- and long-term flows	0	0	0	0	0
IMF disbursements	0	0	0	0	0
Other	95	2	54	89	26
Financing gap = I-II	0	665	4,824	109	992
Exceptional financing gap					
Debt relief and rescheduling	0	665	3,900	55	83
Use of Fund resources (net)	0	0	-22	-18	858
Balance of payments support	0	0	0	0	0
Remaining gap	0	0	946	72	51
Identified financing (provisional)	0	0	878	18	14
Of which: IMF PRGF-EFF	0	0	878	18	14
Unfinanced gap [1]	0	0	68	54	36

Sources: Liberian authorities; and Fund staff estimates and projections.

[1] Assumed to be financed by deferral of payments to official bilateral, commercial and multilateral creditors (see Table 2).

Table 7. Liberia: Possible Schedule of PRGF/EFF Disbursements, 2008–11

Amount	Disbursement Date	Conditions for Disbursement [1]
Total : SDR 550.03 Million PRGF: SDR 207.26 Million EFF: SDR 342.77 Million	March 14, 2008	Executive Board approval of the three-year PRGF/EFF arrangements
PRGF: SDR 7.00 Million	October 31, 2008	Observance of the performance criteria for June 30, 2008, completion of the first review of the arrangements, and financing assurances review
PRGF: SDR 7.00 Million	April 30, 2009	Observance of the performance criteria for December 31, 2008, completion of the second review of the arrangements, and financing assurances review
PRGF: SDR 4.44 Million	October 31, 2009	Observance of the performance criteria for June 30, 2009, completion of the third review of the arrangements, and financing assurances review
PRGF: SDR 4.44 Million	April 30, 2010	Observance of the performance criteria for December 31, 2009, completion of the fourth review of the arrangements, and financing assurances review
PRGF: SDR 4.44 Million	October 31, 2010	Observance of the performance criteria for June 30, 2010, completion of the fifth review of the arrangements, and financing assurances review
PRGF: SDR 4.44 Million	March 13, 2011	Observance of the performance criteria for December 31, 2010, completion of the sixth review of the arrangements, and financing assurances review

[1]In addition to the conditions that generally apply to a PRGF arrangement.

Table 8. Liberia: Fund Credit Position and Projected Payments to the Fund, 2008-2021
(SDR millions unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Prospective drawings [1]														
PRGF	214.3	11.4	8.9	4.4	-	-	-	-	-	-	-			
EFF	342.8	-	-	-	-	-	-	-	-	-	-			
Projected debt service to the Fund [2]	12.5	16.8	16.9	20.9	50.0	97.2	116.2	114.4	112.3	108.9	56.2	4.3	2.2	0.4
Percent of														
GDP	2.2	2.6	2.2	2.3	4.9	9.1	10.4	9.7	9.1	8.3	4.1	0.3	0.1	0.0
Gross Official Reserves	21.6	22.2	18.1	19.4	42.4	71.1	69.1	56.7	46.4	37.5	17.6	1.2	0.6	0.1
Exports of goods and services	4.3	3.9	2.5	2.3	4.8	9.8	13.3	12.7	12.1	11.3	5.7	0.4	0.2	0.0
Fiscal revenues (excluding grants)	9.4	11.3	9.3	9.6	20.0	37.1	42.2	39.4	36.7	33.8	16.6	1.2	0.6	0.1
Projected debt service to the Fund after HIPC and beyond-HIPC debt relief [3]	0.4	0.5	0.5	3.0	0.2	0.2	2.3	4.3	6.0	7.0	7.1	4.3	2.2	0.4
Percent of														
GDP	0.1	0.1	0.1	0.3	0.0	0.0	0.2	0.4	0.5	0.5	0.5	0.3	0.1	0.0
Gross Official Reserves	0.7	0.6	0.5	2.8	0.1	0.1	1.3	2.1	2.5	2.4	2.2	1.2	0.6	0.1
Exports of goods and services	0.1	0.1	0.1	0.3	0.0	0.0	0.3	0.5	0.6	0.7	0.7	0.4	0.2	0.0
Fiscal revenues (excluding grants)	0.3	0.3	0.3	1.4	0.1	0.1	0.8	1.5	2.0	2.2	2.1	1.2	0.6	0.1
Fund credit outstanding [4]	557.0	568.5	28.6	33.0	33.0	33.0	30.9	26.8	20.9	14.0	6.9	2.7	0.4	(0.0)
Percent of														
GDP	98.3	88.1	3.7	3.7	3.2	3.1	2.8	2.3	1.7	1.1	0.5	0.2	0.0	0.0
Gross Official Reserves	963.4	751.8	30.7	30.7	28.1	24.2	18.4	13.3	8.6	4.8	2.2	0.8	0.1	0.0
Exports of goods and services	191.8	131.1	4.3	3.7	3.2	3.3	3.5	3.0	2.2	1.5	0.7	0.3	0.0	0.0
Fiscal revenues (excluding grants)	421.6	382.8	15.8	15.2	13.2	12.6	11.2	9.2	6.8	4.3	2.0	0.7	0.1	0.0
Quota (under the 11th General Review) [5]	431.1	440.0	22.1	25.6	25.6	25.6	23.9	20.7	16.2	10.8	5.4	2.1	0.3	0.0

Source: Finance Department and IMF staff estimates.

[1] A PRGF/EFF-supported program with access in an amount equal to Liberia's stock of arrears to the Fund at arrears clearance (this amount is eligible for both HIPC and beyond-HIPC debt relief), and new credit in PRGF resources of SDR 38.8 million or 30 percent of quota to be disbursed in 7 semi-annual installments. The first disbursement of the new credit at decision point is

[2] EFF charges during the HIPC interim period (assumed to be March 2008 through December 2010) are based on the adjusted rate of charge of 4.34 percent per annum as of February 19, 2008. Beyond the HIPC completion point, EFF charges are based on the assumed SDR interest rate (gradually rising to 5 percent) plus 108 basis points and adjustments for deferred charges. Projected debt services are before HIPC and beyond-HIPC debt relief and do not include net SDR charges and assessments.

[3] It is envisaged that the Fund would disburse HIPC interim assistance to cover forthcoming interest obligations to the Fund net of payments from the Liberian authorities during the HIPC

[4] Fund credit outstanding after HIPC and beyond-HIPC debt relief.

[5] Liberia's quota is SDR 71.3 million under the 8th General Review. Following arrears clearance, and before requesting the new arrangements, Liberia will consent to, and pay for its quota increase to SDR 129.2 million under the 11th General Review.

Table 9. Liberia: Millenium Development Goals

	1990	1995	2000	2005
General Indicators				
Population (millions)	2.1	2.1	3.1	3.3
Gross national income ($ billions)	0.6	0.3	0.4	0.4
GNI per capita ($)	280.0	110.0	130.0	130.0
Adult literacy rate (percent of people of ages 15 and over)	39.0	...	...	...
Total fertility rate (births for women)	6.9	6.8	6.8	6.8
Life expectancy at birth (years)	43.0	41.0	42.0	42.0
Trade (% of GDP)	...	...	54.7	86.8
Goal 1. Eradicate extreme poverty and hunger				
2015 target = halve 1990 $1 a day poverty and malnutrition rates:				
Prevalence of child malnutrition (percent of children under 5)	...	...	26.5	...
Poverty headcount ratio at $1 a day (PPP) (percent of population)	...	...	...	...
Goal 2. Achieve universal primary education				
2015 target: = net enrollment to 100				
Net primary enrollment ratio (percent of relevant age group)	...	...	66.0	...
Percentage of cohort reaching grade 5 (in percent)	...	...	...	...
Youth literacy rate ((in percent of ages 15-24)	57.0	...	...	...
Goal 3. Promote gender equality				
2005 targets = education ratio to 100				
Ratio of girls to boys in primary and secondary education (in percent)	...	...	73.0	...
Ratio of young literate females to males (percent of ages 15-24)	51.0	...	...	...
Share of women employed in the nonagricultural sector (in percent)	23.6	...	...	...
Proportion of seats held by women in national parlament (in percent)	...	6.0	8.0	13.0
Goal 4. Reduce child mortality				
2015 target = Reduce 1990 under 5 mortaility by two-thirds				
Under five mortality rate (per 1000)	235.0	235.0	235.0	235.0
Infant mortality rate (per 1000 live births)	157.0	157.0	157.0	157.0
Inmunization, measles (percent of children under 12 months)	...	...	52.0	94.0
Goal 5. Improve maternal health				
2015 target: Reduce 1990 maternal mortality by two-thirds				
Maternal mortality ratio (modeled estimate per 100,000 live births)	...	...	760.0	...
Births attended by skilled health staff (percent of total)	...	...	51.0	...
Goal 6. Combat HIV/AIDS, malaria and other diseases				
2015 target: = halted, and begin to reverse, AIDS, etc.				
Prevalence of HIV, total (percent of ages 15-24)	...	...	...	...
Contraceptive prevalence rate (percent of women of ages 15-49)	...	...	10.0	...
Incidence of tuberculosis (per 100,000 people)	113.0	197.0	269.0	301.0
Tuberculosis cases detected under DOTS (in percent)	...	31.0	28.0	50.0
Goal 7. Ensure environmental sustainability				
Targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve by 2015, the proportion of people without sustainable access to safe drinking water. By 2 have achieved a significant improvement in the lives of at least 100 million dwellers.				
Forest area (percent of total land area)	42.0	...	36.0	33.0
Nationally protected areas (percent of total land area)	...	...	...	15.8
GDP per unit of energy use (PPP in US$ per Kg. oil equivalent)	...	...	...	...
CO2 emissions (metric tons per capita)	0.2	0.2	0.1	0.1
Access to an improved water source (percent of population)	55.0	...	...	61.0
Access to improved sanitation (percent of population)	39.0	...	...	27.0
Goal 8. Develop a Global Partnership for Development				
Targets: Develop futher an open rule-based, predictable, nondiscriminatory trading and financial system. Address the the special needs of the least developed countries and landlocked countries and smal islands developing st Deal comprehensively with the debt problems of developing countries through national and international measures in ord make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for c and productive work for youth. In cooperation with the private sector, make available the benefits of new technologies, specially information and communications.				
Aid per capita (current US$)	53.0	57.0	22.0	72.0
Youth unemployment rate (percent of total labor force of ages 15-24)	...	...	...	...
Fixed line and mobile telephones (per 1,000 people)	4.0	2.0	3.0	...
Personal computers (per 1,000 people)	...	...	...	...

Source: World Development Indicators database

Appendix I – Letter of Intent

Monrovia, February 27, 2008

Mr. Dominque Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Dear Mr. Strauss-Kahn:

48. Liberia has made tremendous progress since the government took office in early 2006, including by advancing economic reconstruction, restoring macroeconomic stability and strengthening governance. This has been recognized by donors in the form of continued technical and financial assistance and their support for normalizing relations with the international institutions, particularly with respect to the debt relief process. The IMF has played an important role in this process through its engagement with Liberia under the staff-monitored program (SMP) and the provision of extensive technical assistance. We are pleased that the broad objectives of the SMP have been met, evidenced by the continued strong macroeconomic recovery and maintenance of a relatively stable macroeconomic environment. In particular, the financial picture of both the government and the Central Bank of Liberia (CBL) has improved reflecting in large measure steps we have taken to strengthen governance. Both the quantitative and structural benchmarks set under the SMP were useful in helping to achieve the program objectives and were largely met notwithstanding some minor delays.

49. Despite the achievements of the past two years, further reforms are needed to ensure a sustainable recovery over the long term. We remain committed to implementing our comprehensive program to further strengthen public financial management, monetary policy, the financial sector and governance. Our policy framework over the next few years will be guided by the Poverty Reduction Strategy Paper that we are now finalizing.

50. The economic policies for 2008-10 are described in the attached Memorandum of Financial and Economic Policies (MEFP). Based on the strong policy track record we have established under consecutive SMPs since February 2006, we are requesting three-year arrangements under the Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF) in the amounts of SDR 239.02 million and SDR 342.77 million, respectively. We are also requesting access to interim assistance under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, and have provided all the necessary information to the staff

in support of their request for a decision by the IMF and World Bank for Liberia to qualify for enhanced HIPC assistance.

51. The Government of Liberia and the CBL believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of our program, but we will take any additional measures that may become necessary for this purpose. We will continue to consult closely with the IMF staff on the adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. In addition, we will provide the Fund with all information necessary to monitor implementation of the program supported by the PRGF and EFF in a timely manner. Two program and financing assurances reviews will be conducted during the first year of the program and are expected to be completed by end-October 2008 and end-April 2009.

52. Moreover, after the period covered by these arrangements, and while Liberia has outstanding financial obligations to the IMF arising from loan disbursements under the arrangements, we will consult with the IMF from time to time, at the initiative of the government, or whenever the Managing Director of the IMF requests consultation on Liberia's economic and financial policies.

53. We remain committed to transparent policy-making and are willing to make the contents of this letter and those of the attached MEFP and technical memorandum of understanding, as well as the staff report on the request for the three-year PRGF and extended arrangements, available to the public.

Sincerely yours,

/s/
Antoinette M. Sayeh
Minister of Finance

/s/
Joseph Mills Jones
Governor of the CBL

Attachments: Memorandum on Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I – Memorandum of Economic and Financial Policies for January 2008–December 2010

INTRODUCTION

1. This memorandum describes our economic program for January–December 2008 as part of our medium-term strategy through 2010, for which support is being requested from the IMF Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF). We also outline our performance on the staff-monitored program (SMP) through December 2007.

2. Over the past two years the SMP has supported our efforts to resume sustainable growth after almost 14 years of conflict. It has helped us maintain macroeconomic stability and strengthen our core institutions and policies. Nevertheless, immense challenges are ahead in rebuilding the Liberian economy and improving the welfare of our citizens.

3. The government views a formal Fund-supported arrangement as one of the main instruments to support its policies and objectives, as outlined in the interim Poverty Reduction Strategy Paper (I-PRSP) and being further developed in a full PRSP for 2008–11. A three-year PRGF- and EFF-supported program would also provide a framework that would help Liberia to normalize its relations with external creditors and restore its external sustainability. We expect that satisfactory performance on the program would support our effort to reach the completion point for the enhanced HIPC Initiative and receive beyond-HIPC debt relief.

RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE ON THE SMP

4. Since taking office in January 2006 the government has implemented a number of policies to promote economic reconstruction and development. Supported by a recovery in rubber production, construction activity, a large donor presence, and diamond exports after UN sanctions were removed, after GDP declined by over 30 percent in 2003, real GDP growth is estimated to have risen from 2.6 percent in 2004 to 9½ percent in 2007. The exchange rate of the Liberian dollar to the U.S. dollar has been relatively stable over the past year, depreciating by 4.8 percent in the 12 months through December 2007. Year-on-year inflation (as measured by the new harmonized CPI) has also been mostly stable and in the low double digits. Inflation in December was 11.7 percent; with food prices excluded, it was just 5.7 percent.

5. Fiscal management has improved notably since the government took office two years ago as we worked to increase revenues and strengthen public expenditure management. On the revenue side, we strengthened revenue administration and broadened the tax base by, among other actions, (i) reorganizing domestic tax administration; (ii) reducing tax exemptions; (iii) eliminating noncash payment of taxes; (iv) reinforcing preshipment

inspection; (v) strengthening customs; and (vi) introducing an automated tax payment system, with the help of USAID. As a result, in fiscal year 2006/07 revenue excluding grants exceeded the SMP target of US$120.9 million by 21 percent. Meanwhile, with assistance from the IMF, we completed the first-phase review of the Liberia Revenue Code (LRC) and all tax regulations and submitted for legislative approval an administrative procedure law to establish a transparent process for issuing new regulations, and a revised national investment code to limit special tax incentives to those provided for in the LRC.

6. On the expenditure side, to tackle the build-up of domestic arrears and the weak controls of past administrations, we introduced, with donor support, an interim commitment control system to ensure that allotments to line ministries are in line with the revenues available. We also revised our public procurement guidelines to increase transparency and adhere to prudent standards. While expenditure approvals lagged behind cash resources for most of fiscal year 2006/07, reflecting the legislature's late approval of the budget, continuing challenges with the new public procurement process, and capacity constraints in line ministries, spending accelerated significantly in the last two months of the year, allowing us to fully implement the budget on a commitment basis. In the first half of the current fiscal year, spending outpaced that in the corresponding period a year ago by 30 percent. Nonetheless, we are reviewing the procurement act with a view to minimizing regulations that have slowed spending. Civil servants across the country are now paid on time, and we are committed to ensuring that all civil servants are paid before the end of each month.

7. The 2007/08 budget targets a deficit of 1.8 percent of GDP, financed mostly by the 2006/07 budget surplus. Public revenues are forecast to increase by 16 percent over 2006/07, even if we exclude the impact of the one-time Arcelor Mittal payment. To serve our developmental priorities, the budget allocates US$36.9 million (more than 18 percent of the budget) to health and education, which represents 4.8 percent of GDP, up from 3.8 percent in the 2006/07 budget. Given the low wages paid to civil servants, the budget supports an increase in the minimum government wage from US$30 per month to US$55. Revenues in the first six months of the current fiscal year outperformed our already ambitious projections: they increased 46 percent compared to the same period a year ago. After lagging in the first two months of the fiscal year, the pace of expenditures has picked up, as noted.

8. The Central Bank of Liberia (CBL) continued in 2007 to use the exchange rate to gauge changes in the demand for Liberian dollars; it accordingly held foreign exchange auctions to keep the exchange rate relatively stable. In response to downward pressure on the exchange rate, the CBL gradually increased the frequency and size of auctions while still accumulating the planned amount of net liquid foreign exchange assets. Year-on-year reserve money growth rose to 26.7 percent in 2007 from 23.9 percent in 2006; broad money growth

(M2) rose to 40.1 percent from 34.4 percent. Developments in M2 stemmed mostly from fluctuations in U.S.-dollar-denominated liabilities.[13]

9. The CBL continued to strengthen the financial system. With IMF technical assistance, the CBL enhanced bank supervision and implemented plans to build the capital base of banks. To this end, a *Manual for the Reconstruction, Closing, and Liquidation of Insolvent Banks* was drafted, and supervision staff were trained. A Compliance Committee was established to ensure that banks comply with all laws, regulations, and directives, and comprehensive on-site inspections were completed for all operating banks. Significant progress was made in recapitalizing the banking system. By the end of 2007, the capital adequacy ratio of the system exceeded 8 percent. The CBL also submitted to the courts for final resolution four of the formerly licensed abandoned and nonoperating banks. The CBL continued to be cautious in considering applications for new bank licenses, instead encouraging potential applicants to partner with existing Liberian banks. A license was granted to one nonbank financial institution. The CBL, supported by the IFC and UNDP, commenced work on formulating the legal and regulatory framework for the microfinance sector and related capacity building. Further progress was made in improving the financial position of the CBL. Agreement between the government and the CBL to regularize the government's obligations boosted CBL revenues in the second half of 2007. Together with positive balances in government accounts at the CBL, it helped the CBL achieve a budget surplus of US$1.8 million in 2007 against a target of US$0.05 million. Net CBL liquid foreign exchange assets rose by US$13.2 million in 2007.

10. The trade balance narrowed slightly in 2007 (to about 36 percent of GDP). Export growth remained strong (increasing by 44 percent) on account of continued solid growth in rubber exports and resumption of diamond exports after UN sanctions were lifted early in the year. Nevertheless, Liberia's export base remained highly concentrated, with rubber exports accounting for about 90 percent of total exports. While the overall balance of payments is estimated to have stayed in deficit, the gap was more than offset by the continued accumulation of external payments arrears.

11. A HIPC debt sustainability analysis prepared by staff of the IMF and World Bank confirmed that Liberia is eligible to participate in the enhanced HIPC Initiative. At end-June 2007, the NPV of debt to exports was an estimated 1,576 percent, and the ratio of debt to GDP was 468 percent.[14]

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[13] Broad money includes all deposit liabilities of commercial banks denominated in U.S. and Liberian dollars, and currency outside banks in Liberian dollars. While the amount of U.S. dollar currency in circulation is likely to be large in the highly dollarized and cash-based economy, the CBL has no means to measure it.

[14] Refers to the NPV of debt after traditional debt relief.

12. We achieved all but one of the quantitative SMP benchmarks through December 2007 (Table 1), and all but one of the structural benchmarks. The CBL still reached the program objective of a balanced budget, achieving a surplus of US$1.8 million, despite missing the ceiling on expenditure due to higher capital expenditure necessary to the work of the CBL. We are now preparing a medium-term national statistical plan (end-December 2007 benchmark) and expect it to be finalized by end-March 2008 (Table 2).

POLICIES FOR THE THREE-YEAR PROGRAM

Medium-Term Strategy

13. Building on our recent achievements in the SMP, our policy framework contains measures to strengthen macroeconomic stability, increase economic growth and job creation, reduce poverty, and move Liberia closer to the MDGs. The government's policy framework, for which we are requesting PRGF and EFF support, is informed by its I-PRSP; a full PRSP will be finalized by mid-2008. Our poverty reduction strategy rests on four pillars:

- ***Consolidating peace and security.*** Key objectives are rebuilding the armed forces and police following the civil war in preparation for the eventual drawdown of the peacekeeping force; measures include drafting a medium-term national security strategy, training security forces, and creating an early warning system to prevent conflicts. In addition, efforts are being accelerated to identify jobs for excombatants, integrate and resettle internally displaced people and refugees, and reduce unemployment.

- ***Revitalizing the economy.*** Key objectives are to maintain macroeconomic stability; support overall recovery in agriculture, mining, and forestry; improve the management of state-owned enterprises; and support private sector development through such measures as improving services infrastructure, increasing access to financing, reforming land ownership and tenure, rationalizing corporate and import taxes, reforming the investment code, and overhauling burdensome administrative and regulatory procedures.

- ***Strengthening governance and the rule of law.*** Key objectives are reforming and rebuilding the public sector, decentralizing political governance, strengthening the rule of law and respect for human rights, introducing conflict management mechanisms, encouraging broad participation in governance, and reducing corruption.

- ***Rehabilitating infrastructure and delivering basis services.*** Key objectives are rebuilding physical and social infrastructure, including roads, ports, telecommunications, electricity generation, water and sanitation, schools and health care facilities, and improving service delivery.

14. The program for 2008–10 targets annual real GDP growth of 11½ percent. This is based on the resumption of logging and diamond mining since U.N. sanctions were lifted; new investments in iron ore and gold mining; increased activity in the areas of cocoa, coffee, and oil palm production; improved prospects for light manufacturing; and continued strong performance in the service sector. The program also aims to contain inflation to single digits based on prospects for increasing food production and continued prudent macroeconomic policies. The external current account deficit is expected to be large, given the substantial import requirements relating to rehabilitation and reconstruction. This illustrates the importance of continued financial support from international partners on concessional terms.

15. To strengthen PFM, and transparency more broadly, we intend to draw up a medium-term strategy (two to three years) of PFM reforms, with technical assistance from the IMF and World Bank, that could be supported by donors. As PFM continues to improve, the government expects donors to offer increased budget support, which would allow resources to be better coordinated and allocated more efficiently. These reforms will help establish a strong PFM system and phase out the cash management committee at the Ministry of Finance.

16. Civil service reform will be crucial to our efforts to build institutions and capacity. Building on the progress made by removing ghost names from the payroll, increasing basic salaries, and introducing a senior executive service program, the government will complete a medium-term comprehensive civil service reform strategy by mid-2008, covering inter alia compensation and pension reform.

17. The program aims to further increase revenues by advancing comprehensive tax and customs reforms, improving taxpayer compliance, and broadening the tax base. It targets an increase in revenues (excluding grants) by an average of 18 percent per year up to 2010.

18. The government will continue to target a balanced budget and does not plan to engage in any new domestic or external borrowing until (i) external and domestic debt is back on a sustainable footing, (ii) a debt management strategy covering both external and domestic debt has been finalized, and (iii) institutional arrangements for debt management have been strengthened. In the interim, the government will require substantial grant financing from donors to support Liberia's economic reconstruction, particularly in light of the infrastructure financing challenges.

19. To strengthen monetary policy, we will continue to work with the IMF to formulate policy tools to manage liquidity. Steps will also be taken to better coordinate fiscal and monetary policy. Issues relating to determination of an appropriate currency regime will remain under active consideration. We will also continue to focus on building the banking sector and the legal framework to improve private sector access to credit and to develop a modern national payments system. We appreciate the IMF's commitment to providing technical assistance for the payments system initiative. However, we will also need support

from other partners, especially for adoption of the technology needed to support such a system.

20. The financial position of the CBL has improved since early 2006 but needs more reinforcement. The recent arrangement with the Government of Liberia to service its obligation to the CBL and the maintenance of positive balances in government accounts at the CBL have helped to improve the revenue stream of the bank. However, undercapitalization of the bank is a major constraint on the CBL's ability to effectively carry out its mandate with functional independence. The Government will explore ways to address over time the issue of CBL capitalization.

21. Liberia's national statistical capacity is minimal after years of civil war. With much activity in the informal sector and only limited information available on the formal sectors, real GDP may be underestimated. To build the capacity of the Liberian Institute for Statistics and Geo-Information Services (LISGIS) and other agencies, we have started with the support of donors to prepare a national statistical development strategy (NSDS), which is expected to be finalized by April 2008. Meanwhile, LISGIS completed a core welfare indicators questionnaire and a demographic and health survey that is helping to inform preparation of the PRSP. Also, a national population census and a business establishment survey are underway.

The Program for January–December 2008

22. The government's program for 2008 builds on its achievements in the SMP and is consistent with the poverty reduction strategy. Based on continued implementation of sustainable macroeconomic policies, it aims to further strengthen PFM and the banking sector and to implement our anticorruption and domestic debt resolution strategies.

23. The economic outlook for 2008 is broadly favorable. Real GDP growth is projected to remain at about 9½ percent in 2008, supported mostly by the resumption of logging and diamond mining and continued growth in services. Inflation is expected to fall to the single digits. The trade deficit is projected to widen to 62 percent of GDP as the economic recovery continues and donor-financed imports stay high.

Fiscal Policy

24. In 2008 we will continue our efforts to strengthen tax and customs administration. Among other measures we will (i) strengthen taxpayer auditing, enforcement, and taxpayer services; (ii) begin to implement the integrated tax automation system; (iii) strengthen the administration of property taxes; (iv) implement the outsourcing of customs administration; and (v) continue revising the LRC. We will also begin to consider the feasibility of transitioning to a value-added tax and of establishing a revenue authority.

25. Efforts will continue to finalize our tax reform program (consistent with the recommendations of FAD tax policy missions), including: (i) reducing the top corporate and personal income tax rate from 35 percent to 30 and 25 percent, respectively; (ii) increasing the goods and services tax (GST) from 7 percent to 10 percent for all goods and services except food, and reducing the threshold; (iii) phasing in implementation of the ECOWAS common external tariff (CET); (iv) introducing additional tax categories for businesses with turnover above the GST threshold; and (v) facilitating tax payments at commercial banks.

26. Building on progress over the past two years, we plan to draft a medium-term strategy to reform PFM and a comprehensive PFM law for submission to the legislature by mid-2008. Consistent with this strategy, we intend to complete the merger of the Bureau of the Budget (BoB) into the Ministry of Finance by year-end. In the interim, we are implementing measures to give the Ministry of Finance more control over budget implementation by ensuring that the BoB works closely with the Ministry in the reinvigorated Budget Committee, chaired by the Minister of Finance. These measures increase the transparency of transfers between budget lines and require legislative approval for large transfers. Guidelines have also been developed to ensure that expenditures from the county development fund, which are under the control of local authorities, are executed transparently. We will continue strengthening the budget preparation process, consulting frequently with the legislature to ensure the budget is approved in a timely way.

27. We will continue to implement the interim commitment control system to ensure that public expenditure is kept within available monthly cash revenues and follows the prioritized cash plans. To further improve budget implementation, we will strengthen the payment system and eliminate weaknesses at ministries in preparing spending vouchers. We will improve the cash management approval process and cash and procurement planning, in part by further training procurement committees within line ministries. We will also continue to improve the comprehensiveness and timeliness of fiscal reports, including by preparing a GFSM-compatible chart of accounts and regularly reporting public expenditures on both a commitment and a cash basis. Recognizing that timely auditing will strengthen institutions and transparency, we will develop a strategy to improve internal auditing. While the 2007/08 budget has started refocusing public expenditure toward critical poverty-reducing areas, we will continue to work to direct more resources to health, education, infrastructure, and rural development.

28. The government, with support from DFID and the World Bank, will undertake comprehensive civil service reform to strengthen institutions by restructuring civil service compensation and building capacity. To this end, we will seek to create fiscal space by continuing to remove ghost workers from the public payroll and comprehensively review ministries and agencies to identify appropriate functional requirements and staffing levels. We will complete the first phase of establishing the Senior Executive Service by filling the

first 21 of 100 positions. A comprehensive civil service reform strategy will be ready by June 2008.

29. To further improve budget planning and reporting, we have begun to draft a multiyear macrofiscal framework to guide line ministries in expenditure planning and will compile donor data for presentation in the budget and fully cost poverty reduction programs to identify financing gaps. Donor cooperation in providing the required data will be critical to ensure that this objective is achieved. Initial steps have been taken to implement the GFSM 2001 framework to improve the reporting of fiscal data and facilitate analysis of macrofiscal policy. To further improve transparency, monthly revenue and expenditure outturns are being posted on the Finance Ministry website, and quarterly fiscal reports are published in local newspapers.

30. We will continue implementing our domestic debt resolution strategy. We have already made payments to most small claimants and have begun regular payments on restructured claims of financial institutions. We began reconciling and consolidating obligations to state-owned enterprises and appointed an external auditor to verify claims previously classified as contestable so that we can fully assess domestic obligations. Preparations are being finalized to establish a trust fund to ensure that resources are available to implement the strategy over the long term.

Monetary and Exchange Rate Policies and Financial Sector Reforms

31. The primary objective of monetary policy is price stability. Given the limited scope for monetary policy in the current dual currency and dollarized environment, and recognizing that the exchange rate represents the main transmission mechanism through which monetary imbalances affect prices, the CBL will continue to use it as the main indicator of domestic monetary conditions. The CBL will manage Liberian dollar liquidity with the aim of keeping the exchange rate relatively stable. Having limited monetary policy instruments, the CBL will use the foreign exchange auction as the principal tool to pursue this objective. To strengthen its ability to conduct monetary policy, the CBL will (i) collect more data on volumes in the foreign exchange market and the flow of remittances; (ii) continue efforts to regularize the large number of informal foreign currency traders; and (iii) finalize plans for possible introduction of credit and deposit auctions. Meanwhile, it will work more actively to enhance public understanding of its monetary policy, which has already been publicized.

32. The CBL is targeting its net liquid foreign exchange position to reach a minimum of US$47.6 million by year-end (Table 3). The government and the CBL will coordinate modalities for achieving this target.

33. The CBL will continue to assess the dual currency arrangement as part of its efforts to strengthen the financial system and maintain macroeconomic stability. Meanwhile, the government will take steps to support demand for the Liberian currency.

34. The CBL will continue working to strengthen domestic banks, and is moving to ensure that banks will be restructured and recapitalized. Accordingly, the Compliance Committee will continue to monitor implementation of corrective measures recently specified by the CBL. Moreover, onsite inspections are being carried out at each bank twice a year.

35. Consistent with the envisaged expansion of the banking system, the CBL will give priority to strengthening its capacity to supervise domestic banks. Current IMF technical assistance in the form of a resident adviser for the Supervision Department is an important step in this direction. The hiring of additional staff for the department has been budgeted. A more vibrant and competitive banking system, buttressed by a strong capital base and credible business plans, is critical for financing the private sector. The CBL will therefore consider applications for banking licenses from internationally reputable banks outside Liberia, while recognizing the need to carefully manage entry into the Liberian market.

36. The CBL board of governors approved a balanced budget for 2008. The bank will continue its efforts to improve its financial position, rebuild net foreign exchange assets, and introduce additional monetary policy instruments. With assistance from the IMF, preparations will continue to implement the International Financial Reporting Standards as the accounting framework in 2008.

External Policies

37. With improved economic prospects and support from our international partners, Liberia's balance of payments position is expected to be manageable for the medium term. Nevertheless, large investment and reconstruction needs will put pressure on the current account. The current account deficit, excluding grants, is expected to widen by about 27 percentage points, to 94 percent of GDP, in 2008 as import growth accelerates with a surge rise in foreign direct investment. This underscores the importance of continued financial assistance from the international community in the form of grants. The deficit is, however, projected to shrink over the medium term as domestic savings rise .

38. An important objective of the PRGF-supported program is to rebuild Liberia's international reserves. The CBL therefore intends to use initial PRGF and EFF disbursements to rebuild Liberia's SDR holdings up to its allocation of SDR21 million.

39. Given that Liberia external debt is unsustainable, our debt management strategy will emphasize financing development expenditures through grants and will focus on regularizing relations with external creditors. The government will observe the zero ceiling on new external borrowing set by the PRGF and EFF until debt is once again sustainable. Having verified Liberia's external debt and arrears to most creditors, we intend to request debt relief on favorable terms from the Paris Club, some members of which have already committed to granting full relief on all debt in arrears. We also intend to seek relief from other bilateral

creditors on terms comparable to the Paris Club's and seek similar relief from our private creditors. The government expects that with obligations rescheduled and other debt relief, actual cash payments would not rise significantly during the program.

40. With assistance from our financial advisors, we estimate Liberia's stock of debt to private creditors at US$1.5 billion as of June 30, 2007. Because we have limited resources to service or resolve our debt, any proposal to resolve commercial debt would be contingent on the generosity of donors and would adhere to HIPC guidelines.

41. Liberia's trade regime is relatively liberal. Our average unweighted tariff compares favorably with those of neighboring countries. To further enhance trade, we intend to commence our transition to the ECOWAS CET in 2008 and to fully harmonize before 2012.

42. The government is committed to improving the quality of balance of payments data; here we welcome approval by the IMF of a resident technical advisor for the CBL for one year.

Structural Reforms

43. Besides structural reforms in the fiscal and financial sectors, we will also implement other reforms to support our poverty reduction objectives. We will therefore continue to reform the security and judicial sectors, rebuild physical and social infrastructure, and support private sector development through continued reforms in agriculture, mining, and forestry, among other areas. The government will take steps to eliminate the barriers to entering the formal sector identified by the World Bank Foreign Investment Advisory Services. We are also finalizing arrangements to resume logging and timber exports and have concluded a contract to manage the chain of custody so as to better secure forestry revenues. We are implementing the Liberia Extractive Industries Transparency Initiative with support from donors.

44. To further improve governance, the government will begin implementing its recently approved anticorruption strategy. Once the supporting legislation has been passed, we will take action to establish the Liberia Anticorruption Commission. This entity, which will have the power to investigate and prosecute corruption cases, should begin operating this year. To fully implement our anticorruption strategy, we will continue to need financial and technical support from donors, in particular to make the Anticorruption Commission fully functional.

45. We plan to deal with our legacy of direct state involvement in commercial enterprises. We will be guided in this regard by the President's vision that government should only be doing what cannot or should not be done by the private sector. Port reform is high on our agenda with the initiation of a BoT to improve facilities, revenues, and import/export processes. Building on prior analytical work, such as the CBL and Ministry of Agriculture's examination of agricultural parastatals, we plan to complete the dissolution of

moribund institutions while rehabilitating strategic institutions. In general, we hope to move state-owned enterprises toward increasing private participation and exposure to market competition. The government will divest itself of shares in commercial banking institutions, making its shares available to the Liberian public for purchase.

Data Issues and Technical Assistance

46. Recognizing the importance of accurate and timely statistics as we formulate and evaluate macroeconomic policy and implement the full PRSP, the government will finalize a prioritized NSDS and present it to our international partners to seek their financial and technical support for its implementation. Liberia is already receiving support from international partners to strengthen our economic governance and capacity.

PROGRAM MONITORING

47. The first year of the three-year PRGF- and EFF-supported program would be monitored on the basis of biannual quantitative performance criteria for June 30 and December 31, 2008, and indicative targets for March 31 and September 30, 2008 (Table 3). Structural conditionality for the program (Table 4) draws on the I-PRSP.

Table 1. Liberia: Quantitative Indicators 2007-08 (cumulative basis from end of fiscal year, unless otherwise noted)

(Millions of US$)

	Mar. 07		Jun. 07		Sep. 07		Dec. 07		Mar. 08
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.
Fiscal									
Floor on revenue collections	84.5	105.9	120.9	146.8	40.9	43.8	77.3	88.7	139.5
Floor on fiscal balance [1]	-19.5	24.0	-19.5	16.7	-13.7	11.2	-13.7	10.1	-13.7
Ceiling on new noncash tax/duty payment (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic borrowing (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new external borrowing (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables (excluding the arrears arising from the current debt outstanding) (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CBL									
Ceiling on expenses	1.3	1.0	2.6	2.3	3.9	3.5	5.3	6.9	1.4
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on CBL’s cash-based budget balance	-0.1	0.7	0.0	1.3	0.1	1.8	0.0	1.8	0.0
Floor on CBL’s net foreign exchange position	22.7	24.3	26.8	29.8	29.3	31.5	31.6	34.9	34.6
Other									
Floor on payments to the Fund (in US$) (continuous basis)	540,000	540,000	720,000	720,000	180,000	180,000	360,000	360,000	540,000

[1] Starting in September 2007, the fiscal balance, on a commitment basis, is defined as the difference between (a) total central government revenue plus budget support (excluding project grants), and (b) total current expenditure plus investment expenditure (excluding foreign-financed investment expenditure), payment of arrears, amortization, and payments to the domestic trust fund. The program target for the floor on fiscal balance allows for a deficit given the accumulation of surpluses in the government's account at the central bank from the previous fiscal year.

Table 2. Structural Benchmarks for January 2007–March 2008 SMP

Measures	Target Dates	Status
Fiscal Policy		
Commence implementation of the domestic debt resolution strategy, and develop a plan to settle cross-debts between the government and state-owned enterprises.	End-March 2007	Implemented by mid-April 2007
Submit a balanced cash-based budget for 2007/08 for legislative approval.	End-May 2007	Implemented by May 17
Develop and implement a comprehensive plan to reform the investment incentive code and submit legislation to repeal Section 204(e) of the Liberia Revenue Code of 2000, as well as the 2004 Act amending the code, which allowed the government to enter into ad hoc tax concession agreements with individual investors.	End-June 2007	Implemented by end-September
Reorganize administration of domestic taxes by taxpayer segmentation.	End-June 2007	Implemented by end-June
Adopt legislation to merge the Bureau of the Budget into the Ministry of Finance and to limit transfers between budget lines without legislative approval to a cumulative total of no more than 30 percent.	End-March 2008	
Prepare a chart of accounts, consistent with GFSM 2001-compatible budgetary classifications.	End-March 2008	
Financial Sector		
Establish clear audit selection and rotation procedures and criteria for the CBL to select an internationally reputable audit firm to conduct the CBL's future external audits, pursuant to ISA, beginning in fiscal year 2007.	End-March 2007	Implemented by mid-June 2007
Develop a restructuring plan for the remaining undercapitalized banks consistent with the CBL's Bank Reconstruction and Resolution Policy.	End-June 2007	Implemented by January 2008
Appoint an auditor, consistent with the criteria above, to audit the CBL's financial accounts for 2007.	End-September 2007	Implemented by end-September
Publish a list of banks licensed to operate in Liberia as part of the strategy for the final resolution of abandoned and nonoperating banks.	End-March 2008	

Table 2. Structural Benchmarks for January 2007–March 2008 SMP (Concluded)

Other Areas		
Replace the Monrovia CPI with the Harmonized CPI.	End-February 2007	Implemented by end-February 2007
Submit required legislation for establishment of an independent anticorruption agency for legislative approval, consistent with the government's anticorruption strategy.	End-September 2007	Implemented by end-September 2007
Submit for legislative enactment an administrative procedure law that establishes a transparent process for the issuance of regulations pursuant to the Liberia Revenue Code of 2000, and submit legislation to repeal other laws and revoke regulations that are inconsistent with the law.	End-September 2007	Implemented by January 2008
Develop a comprehensive national statistical development strategy.	End-December 2007	Ongoing

Table 3. Liberia: Quantitative Performance Criteria and Indicative Targets, 2008

(Millions of US$)

	Mar. 08 Prog.	Jun. 08 Prog.	Sep. 08 Prog.	Dec. 08 Prog.
Performance criteria and indicative targets [1]				
Fiscal [2]				
Floor on revenue collections	139.5	185.7	43.3	91.7
Floor on fiscal balance [3]	-13.7	-13.7	0.0	0.0
Ceiling on new noncash tax/duty payment (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new domestic borrowing (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new external borrowing (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables (excluding the arrears arising from the current debt outstanding) (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new external arrears (continuous basis)	0.0	0.0	0.0	0.0
CBL [4]				
Ceiling on expenses	3.9	5.5	6.9	8.5
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0
Floor on CBL's cash-based budget balance	-1.7	-1.1	-0.3	0.4
Floor on the CBL's net foreign exchange position	36.4	40.0	43.9	47.5

[1] Performance criteria at end-June and end-December 2008.

[2] Cumulative; fiscal year basis.

[3] Starting in September 2007, the fiscal balance, on a commitment basis, is defined as the difference between (a) total central government revenue plus budget support (excluding project grants), and (b) total current expenditure plus investment expenditure (excluding foreign-financed investment expenditure), payment of arrears, amortization, and payments to the domestic trust fund. The program target for the floor on fiscal balance allows for a deficit given the accumulation of surpluses in the government's account at the central bank from the previous fiscal year.

[4] Cumulative; calendar year basis.

Table 4. Performance Criteria (in bold) and Structural Benchmarks for the First Year of the PRGF/EFF Arrangements (January–December 2008)

Measures	Target Dates
Fiscal policy	
Adopt legislation to limit transfers between budget lines without legislative approval to a cumulative total of no more than 30 percent.	**End-March 2008**
Prepare a chart of accounts consistent with GFSM 2001-compatible budgetary classifications.	End-March 2008
Adopt legislation to merge the Bureau of the Budget into the Ministry of Finance.	**End-June 2008**
Develop an internal audit strategy for the central government.	End-June 2008
Complete the merger of the Bureau of the Budget into the Ministry of Finance.	End-December 2008
Submit a draft PFM law to the legislature.	**End-December 2008**
Develop a medium-term macrofiscal framework for the purpose of preparing the 2009/10 budget.	End-December 2008
Financial sector	
Publish a list of banks licensed to operate in Liberia as part of the strategy for resolution of abandoned and nonoperating banks.	End-March 2008
Establish a system of off-site inspection by requiring quarterly submission of prescribed data by all banks, and submit the first written reports to the Banking Compliance Committee.	**End-June 2008**
Other Areas	
Finalize a comprehensive civil service reform strategy, endorsed by the cabinet.	End-June 2008
Finalize debt management strategy, endorsed by the cabinet.	End-June 2008
Establish a functioning Liberia Anticorruption Commission, consistent with Liberia's anticorruption legislation.	**End-September 2008**
Develop a comprehensive national statistical development strategy.	End-March 2008

Attachment II – Technical Memorandum of Understanding (TMU)

1. This memorandum sets out the understandings between the Liberian authorities and the International Monetary Fund (IMF) regarding the definitions of quantitative and structural performance criteria and benchmarks for the three-year PRGF/EFF program, as well as the reporting requirements. The definitions are valid for the start of the program but may need to be revisited during program reviews to ensure that the memorandum continues to reflect the best understanding of the Liberian authorities and the IMF staff in monitoring the program.

I. Quantitative Performance Criteria and Benchmarks

A. Test Dates

2. Quantitative performance benchmarks have been set for end-March, end-June, end-September, and end-December 2008.

B. Definitions and Computation

3. **For purposes of the program, the government is defined as the central Government of Liberia (GoL).** This definition excludes legally autonomous state-owned enterprises whose budgets are not included in the central government budget. The operations of the central government will be presented in U.S. dollars with all revenues and expenditures that are denominated in Liberian dollars converted at the end-of-period exchange rate.

4. **Government revenue** includes all tax and nontax receipts transferred into the U.S. dollar GoL accounts at the Central Bank of Liberia (CBL), including income and transfers from state-owned enterprises and public institutions (excluding external loans and grants). The GoL accounts at the CBL include the GoL General Account No. 2, the GoL Special Rice Fund, and the Liberian dollar account at the CBL, which is the GoL General Account. Any new accounts opened by the GoL at the CBL or any other local financial agency shall be reported to the IMF. For purposes of the program, the revenues of the GoL are measured on the basis of cash deposits in the four accounts specified converted to U.S. dollars using the end-of-period exchange rate.

5. **The fiscal balance** is defined as the difference between (a) government revenue defined in paragraph 4 of this TMU (including budget support grants, but excluding earmarked external loans and grants); and (b) government current expenditure plus capital expenditure (excluding foreign-financed expenditure for earmarked purposes), payment of arrears, amortization, and payments to the domestic trust fund on a commitment basis.

6. **Noncash tax/duty payment** is defined as any noncash settlement of duty/tax obligations to the GoL through the exchange of goods or services.

7. **New domestic borrowing** is defined as new claims on the central government after the start of the program. It will be measured by the change in the stock of all outstanding claims on the central government (loans, advances, and any government debt instruments, such as long-term government securities) by the banking system. The definition also includes the issuance of debt instruments by the GoL to the nonbank sector. For measurement purposes, all claims in Liberian dollars will be converted at the end-of-period exchange rate.

8. **New domestic arrears/payables of the government** are calculated as the difference between government payment commitments and the actual payments made on such commitments, providing for a processing period of no more than 15 days from the date of commitment. Actual payments are defined as having taken place on the date of issuance of checks by the Ministry of Finance. Government payment commitments include all expenditure for which commitment vouchers have been officially stamped with the Bureau of General Accounting (BGA) seal, and expenditures that are now automatically approved, namely, wages and salaries, pensions, debt payments to the CBL and commercial banks, CBL bank charges, and transfers of ECOWAS levies into the ECOWAS account.

9. **Contracting or guaranteeing of new external debt by the public sector:** For purposes of the program, external debt applies not only to the meaning set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to Foreign Debt" (see Decision No. 12274-00/85, August 24, 2000 attached in **Annex I**), but also to commitments contracted or guaranteed for which value has not been received. In this memorandum, the public sector consists of the central government, state-owned enterprises, and the CBL.

10. The government undertakes not to incur arrears on external debt that it owes or guarantees, except for external payments arrears arising from government debt that is being renegotiated with creditors, including Paris Club creditors. Arrears on external debt are defined as any unpaid obligation on the contractual due date. In cases where a creditor has granted a grace period after the contractual due date, arrears are incurred once the grace period expires.

11. **CBL expenses** are defined as the sum of (i) recurrent expenditures and (ii) capital expenditure, on a cash basis.

12. **Arrears of the CBL** are calculated as the difference between payments due on commitments from the start of the program and actual payments made on those commitments. For the purpose of this memorandum, CBL commitments due include all expenditure for which goods and services have been delivered but have not been paid for.

13. **The CBL cash-based budget balance** is defined as the difference between (a) total revenues (the sum of interest and noninterest income) on a cash basis; and (b) total current expenditure plus capital expenditure, on a cash basis.

14. **The net CBL foreign exchange position** is defined as the difference between (a) the CBL's gross foreign liquid reserves, as currently defined in the monthly monetary survey. and (b) the sum of its gross foreign liquid liabilities and liquid liabilities denominated in U.S. dollars, as currently defined in the monthly monetary survey.

II. Program Monitoring

A. Program–Monitoring Committee

15. The Liberian authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the CBL, and other relevant agencies; the IMF Resident Representative will have observer status. The committee shall be responsible for monitoring performance on the program, recommending policy responses, informing the IMF regularly about progress of the program, and transmitting materials necessary for evaluation of benchmarks. The committee shall provide the IMF with a progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

B. Data Reporting to the IMF

16. To allow monitoring of developments on the program, the Ministry of Finance will coordinate and regularly report the following information to the staff of the IMF:

- Detailed reports on monthly revenue and expenditure on both a cash and a commitment basis by budget line and a completed summary table on central government operations (monthly, within three weeks after the end of the month);

- Outstanding appropriations, allotments, and commitments, and disbursements for line ministries and agencies (monthly, within three weeks after the end of the month);

- Disbursements of budget support grants and loans, by donor (monthly, within three weeks after the end of the month);

- Daily balances in the GoL accounts at the CBL. These are the U.S. dollar—GoL General Account No. 2 and the GoL Special Rice Fund—and Liberian dollar accounts—the GoL/CBL Civil Servant Payroll Account No.2 and the GoL General Account. Any new accounts opened by the GoL at the CBL or at any other local financial agency shall be reported to the IMF (daily, within three days from the date of the statement);

- End-of-month balances of all operating and other accounts of the line ministries and agencies receiving budgetary appropriations (monthly within three weeks after the end of the month);

- A table providing the end-of-period stock of domestic arrears accumulated and payments made on arrears during the period, by budget category (wages, goods, and services, etc) (monthly, within three weeks after the end of the month);

- The amount of new domestic debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);

- A detailed report on monthly payments on domestic debt by category and the domestic debt stock (monthly, within three weeks after the end of the month);

- The amount of new external debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);

- The balance sheet of the CBL in the monthly monetary survey (monthly, within two weeks after the end of the month);

- The full monthly monetary survey of the monetary sector, (monthly, within three weeks after the end of the month);

- Monthly detailed table of commercial bank loans and advances by sector (within two weeks of the end of the month);

- Core financial soundness indicators by individual financial institution, including overall profitability of the banking sector (quarterly, within three weeks after the end of the quarter);

- The monthly report on CBL cash revenues and expenditures in U.S. and Liberian dollar terms, on an aggregated basis, including both recurrent and capital expenditure (monthly, within two weeks after the end of the month);

- CBL expenditures on a commitment basis (monthly, within two weeks after the end of the month);

- The report on sales/purchases by the CBL through foreign exchange auctions held by the CBL, including U.S. dollars offered and sold, the auction rate, the number of accepted and rejected bids, and the total value of bids and of rejected bids (weekly);

- Regular sale of U.S. dollars by the Ministry of Finance to the CBL, including amount, date, and rate of exchange (monthly, within two weeks after the end of the month);

- Indicators of overall economic trends, including but not limited to
    - detailed tables of the monthly harmonized consumer price index (within two weeks after the end of the month);
    - daily foreign exchange rates (weekly);
    - export volumes and values by major commodity, import values by SITC classification, import volumes of rice (by commercial and noncommercial use) and petroleum products (monthly, within three weeks after the end of the month);
    - interest rates and commercial bank remittance inflows and outflows (monthly, within three weeks after the end of the month); and
    - production data in value and volume (monthly, within six weeks after the end of the month).
- The report on the status of implementation of the structural performance criteria and benchmarks specified in Table 2 of the MEFP (monthly, within three weeks after the end of the month).

17. The above data and reports will be provided in hard copies and electronically to the IMF Resident Representative to Liberia, Mr. Tharkur (mtharkur@imf.org), with copies to the local IMF economist, Mr. Deline (adeline@imf.org), for transfer to the African Department of the IMF in Washington, D.C.

Annex 1: Guidelines on Performance Criteria with Respect to Foreign Debt

Excerpt from Executive Board Decision No. 6230-(79/140), as revised on August 24, 2000

(a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Appendix II – Request for Exceptional Access for Poverty Reduction and Growth Facility and Extended Fund Facility Arrangements

A. Introduction

1. **As set out in the framework for exceptional access cases, this appendix evaluates the case for exceptional access under the proposed PRGF/EFF, in light of the four substantive exceptional access criteria in capital account crises.** In non-capital account cases, requests for access above the limits need to be justified "in light of the four substantive criteria." The observance of all the criteria is not a requirement, and the Board has flexibility to grant exceptional access under the exceptional circumstances clause.

B. Exceptional Access Criteria in Capital Account Crises

2. **Criterion 1—The member is experiencing balance of payments pressures in the capital account resulting in a need for Fund financing that can not be met within normal limits.** Liberia is not in such circumstance and is unlikely to face such pressures at the time of its request for exceptional access. Most of Liberia's external debt (about 96 percent) is in arrears. During the period prior to the HIPC Initiative completion point, Liberia's debt repayments to its creditors are expected to be contained to a manageable level and in line with its very limited payment capacity.

3. **Criterion 2—A rigorous and systematic analysis indicates that there is a high probability that debt will remain sustainable.** A decision point HIPC debt sustainability analysis (DSA) conducted by the staffs of the IMF and World Bank confirms Liberia's debt is unsustainable, unless it receives substantial debt relief, including under the enhanced HIPC and MDR Initiatives. The DSA shows that even the full delivery of debt relief following the HIPC completion point, debt would only be sustainable if new external financing remains highly concessional. Moreover, debt sustainability would remain highly vulnerable to adverse exogenous shocks.

4. **Criterion 3—The member has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, so that the Fund's financing would provide a bridge.** Liberia has not had access to capital markets since the early 1980s and is not projected to seek non-concessional private financing.

5. **Criterion 4—The policy program of the member country provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.** Liberia's track record of policy implementation under the SMPs since February 2006 demonstrates the authorities' commitment to implement strong policies, even with limited institutional capacity. This is

expected to continue under the PRGF/EFF program, which includes substantial measures to improve Liberia's policy making and governance institutions.

C. Overall Assessment

6. **Staff supports the authorities' request for the new three-year arrangements; and since not all four criteria governing exceptional access are met, it is proposed to approve such access by invoking the exceptional circumstance clause.** The authorities have formulated an ambitious policy framework that addresses the fundamental structural weaknesses and vulnerabilities in the Liberian economy. In providing financial support at this critical juncture, when financing needs are large and policy implementation is ambitious, the Fund can assist Liberia in the needed build up of reserves and lay the basis for a lasting exit from future Fund financial assistance. The proposed access is at the middle-to-lower end of other exceptional access cases.

INTERNATIONAL MONETARY FUND

LIBERIA

Fourth Review of Performance Under the Staff-Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and the Extended Fund Facility
Informational Annex

Prepared by the African Department
(In collaboration with other departments)

Approved by Thomas Krueger and Matthew Fisher

February 27, 2008

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. Liberia has been in continuous arrears to the Fund since 1984. The Fund issued a declaration of noncooperation in 1990, and Liberia's voting rights were suspended in March 2003. Liberia's arrears to the Fund at end-January 2008 amounted to SDR 540 million (758 percent of quota). The authorities have been making monthly token payments of US$60,000 to the Fund since November 2005, up from US$50,000 since January 2004.

- **Relations with the World Bank.** Describes World Bank Group program and portfolio.

- **Statistical Issues.** Assesses the quality of statistical data. Substantial weaknesses in Liberia's economic statistics hamper effective surveillance, largely because the civil war caused widespread destruction of databases and the loss of administrative and institutional capacity for statistics.

LIBERIA—APPENDICES TO THE SECOND REVIEW OF PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM AND PROGRAM FOR 2007

Contents Page

Appendix I. Liberia—Relations with the Fund
(As of December 31, 2007)

I. Membership Status: Joined 03/28/1962; Article XIV

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	71.3	100.0
Fund holdings of currency	271.1	380.2
Reserve position in Fund	0.0	0.0

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	21.0	100.0
Holdings	0.0	0.0

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
Stand-By Arrangements	165.1	231.5
Contingency and Compensatory	34.7	48.7
Trust Fund	22.9	32.1

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	12/07/1984	12/06/1985	42.8	8.5
Stand-By	09/14/1983	09/13/1984	55.0	55.0

VI. Projected Obligations to the Fund[1] (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	12/31/2007	2008	2009	2010	2011	2012
Principal	222.67					
Charges/interest	317.58	11.42	11.38	11.38	11.38	11.39
Total	540.25	11.42	11.38	11.38	11.38	11.39

[1] The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but that forthcoming obligations will be settled on time.

VII. Safeguards Assessment

A voluntary safeguards assessment of the Central Bank of Liberia (CBL) was conducted under the 2006 staff-monitored program (SMP). The assessment found significant vulnerabilities in the CBL's external and internal audit mechanisms, financial reporting, and system of internal controls. The overall risk assessment and recommendations relating to internal audit and internal controls were deferred pending the return of normal activity levels in these areas. The CBL's controls are at present reliant on the direct involvement of the Fund-supported Internationally-recruited expert for all payment approvals, which is appropriate for the current level of operations. In the other areas, recommendations were made to strengthen the bank's external audit and audit oversight, improve the CBL's financial reporting by adopting International Financial Reporting Standards for implementation by 2008, and establish controls over the reporting of monetary data to the Fund. Most of these recommendations have already been implemented. The safeguards assessment will need to be updated before the first review of performance under the PRGF/EFF-supported program. This update will, inter alia, follow up on the results of the 2006 external audit and determine whether the CBL's audit selection policy ensures the conduct of an external audit in accordance with international standards.

VIII. Exchange Rate Arrangement

Liberia maintains an exchange rate system that is free of restrictions on payments for current can capital transfers. The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. The current exchange rate arrangement is a managed float, with no predetermined path for the exchange rate. The exchange rate of the Liberian dollar is market determined, and all foreign exchange dealers, including banks, are permitted to buy and sell currencies, including the U.S. dollar. Liberia's exchange rate at end-January 2008was L$63.5=US$1.

IX. Article IV Consultation

The 2006 Article IV consultation discussions were held in Monrovia during February 16-March 1, 2006 in Monrovia. The staff report (Country Report No. 06/166, 5/08/06) was discussed by the Executive Board on April 26, 2006 and is posted on the IMF website.

X. Technical Assistance

Subject	Department	Date
Mission: assessment of TA needs	MFD	Dec. 2003
Mission: monetary operations, foreign exchange, auctions, banking supervision, payments system	MFD	May 2004
Mission: monetary operations, foreign	MFD	Aug. 2004

exchange auctions, banking supervision, payments system		
Mission: monetary operations, foreign exchange auctions, payments system	MFD	Feb. 2005
Mission: bank restructuring	MFD	May 2005
Mission: monetary operations, foreign exchange auctions, banking supervision, payments system	MFD	Aug. 2005
Mission: negotiation on chief administrator post	MFD	Dec. 2005
Chief Administrator for the CBL	MFD long-term	Feb. 2006
Mission: bank restructuring, monetary operations, payment systems, and central bank accounting	MFD	June 2006
Advisor: foreign exchange auction	MCM	Aug. 2006
Mission: bank restructuring	MCM	Aug. 2006
Mission: bank restructuring	MCM	Oct. 2006
Mission: bank restructuring, monetary operations, payment systems, and central bank accounting	MCM	Feb. 2007
Mission: bank restructuring	MCM	Mar. 2007
Mission: central bank accounting, and national payments system	MCM	April 2007
Mission: bank restructuring	MCM	Apr./Jun. 2007
Advisor: central bank accounting	MCM	Jul. 2007
Resident expert: bank supervision	MCM	Aug. 2007
Resident expert: payments system	MCM	Sept. 2007
Mission: assessment of TA needs	FAD	Dec. 2003
Mission : public expenditure management	FAD	May 2004
Mission : public expenditure management	FAD	July 2004
Mission : tax administration	FAD	Sep. 2004
Mission : public expenditure management	FAD	Dec. 2004
Mission : public expenditure management	FAD	Feb. 2005
Mission : forestry tax policy	FAD	Feb. 2005
Mission : public expenditure management	FAD	May 2005
Mission : public expenditure management	FAD	Dec. 2005
Mission : public expenditure management	FAD	Feb. 2006
Mission: public financial management	FAD	Mar. 2006
Mission: tax policy	FAD	May 2006
Mission: revenue administration	FAD	Aug. 2006
Advisor: tax administration	FAD short-term	Oct. 2006
Advisor: public financial management	FAD long-term	Nov. 2006

(resigned in Feb. 2007)		
Mission: tax administration	FAD	Feb./Mar. 2007
Mission: tax policy	FAD	Apr. 2007
Advisor: public financial management	FAD long-term	May. 2007
Mission: customs administration	FAD	Jun./Jul./Oct. 2007
Mission: tax administration	LEG	Jun./Sept./Oct. 2007
Mission: extractive industries tax	FAD	Aug./Sept. 2007
Mission: PFM	FAD	Oct./Nov./Dec. 2007
Mission: tax policy for mining	FAD	Dec. 2007
Mission: assessment of TA needs	STA	Dec. 2003
Mission: balance of payments statistics	STA	May 2004
Mission: balance of payments statistics	STA	July 2004
Mission: government finance statistics	STA	July 2004
Mission: national accounts	STA	July 2004
Mission: monetary and financial statistics	STA	Aug. 2004
Mission: government finance statistics	STA	Jan. 2006
Mission: consumer price statistics	STA	May 2006
Mission: government finance statistics	STA	June 2006
Mission: monetary statistics	STA	Nov. 2006
Mission: balance of payments statistics	STA	Nov. 2006
Mission: CPI	STA	Jun. 2007
Mission: monetary statistics	STA	Oct./Nov. 2007
Resident expert: balance of payments	STA	Jan. 2008
Mission: revenue code	LEG	Oct. 2006
Mission: tax legislation	LEG	Jul./Oct. 2007
Mission: tax policy for mining	LEG	Dec. 2007

XI. Resident Representative

A resident representative has been posted in Monrovia since April 2, 2006.

Appendix II. Liberia—Relations with the World Bank Group

(As of Feb 6, 2008)

In December 2007, Liberia cleared its arrears to the World Bank for a total of US$400.5 million bringing Liberia into accrual status.

The Bank Group strategy and lending operations

Since the Accra Comprehensive Peace Agreement in August 2003, the World Bank has provided a mix of IDA pre-arrears and trust-funded grants totaling around $140 million, supporting early efforts in economic governance, public financial management, procurement reform, community empowerment programs, and quick-impact infrastructure rehabilitation. This includes $11 million in quick-disbursing support from the LICUS Trust Fund, and a special $25 million allocation from IBRD surplus to a special Trust Fund for Liberia. An Interim Strategy Note, based on the government's first interim Poverty Reduction Strategy Paper (I-PRSP), was discussed by the Bank's Board in June 2007. Following arrears clearance, and the government's completion of Liberia's PRSP, a full Country Assistance Strategy is being prepared for early FY09 which will elaborate a program of IDA post-conflict assistance expected to be on the order of $35-40 million per year.

As of February 2008, the current Liberia portfolio includes 4 IDA grants summarized in the table below, covering transport, urban works, community empowerment, and emergency health systems, totaling US$ 101 million with an undisbursed balance of US$83 million.

For FY08-FY09, the Bank's program will continue to support large infrastructure works, in addition to an Economic Governance and Institutional Reform project that will focus on public financial management, procurement, civil service reform, and natural resource revenue management, among other things. The Bank will also support private sector development and policy actions to enable pro-poor growth, capacity development, and community empowerment.

IMF-World Bank collaboration in specific areas

Overall, the IMF and World Bank staffs maintain a close collaboration in policy advice to the Liberian authorities. In view of the structural measures envisaged under the medium term program, successful implementation hinges on complementary action by the World Bank, especially in the areas of business climate improvements, poverty reduction policies, and nonrenewable resource management.

Table. Liberia: Financial Relations with the World Bank

(As of February 2008; in millions of U.S. Dollars)

IDA Lending Operations	Approval Date	IDA Commitments in US$ Million	Undisbursed Amount of Active Projects
Emergency Infrastructure Project	20-Jun-06	46,500,000.00	29,556,399.61
Community Empowerment II	14-Jun-07	5,000,000.00	4,900,737.18
Health Systems Reconstruction	14-Jun-07	8,500,000.00	8,030,888.67
LR-Agriculture & Infrastructure Development Project	31-Jul-07	37,000,000.00	36,631,765.11
Reengagement and Reform Support Program	5-Dec-07	4,000,000.00	4,000,000.00
Total		101,000,000.00	83,119,790.57

Area of Structural Reform	Lead Institution
1. Fiscal area	
Civil service reform	World Bank
Expenditure monitoring and control	World Bank
Public Expenditure and Financial Accountability	IMF/World Bank
Tax administration, policy and legislation	IMF
2. Monetary and Financial sector	
Banking sector reform	IMF/World Bank
Technical Assistance (Central Bank)	IMF/World Bank
3. Governance	
GEMAP	The World Bank/IMF
Extractive Industries Transparency Initiative (EITI)	World Bank
Kimberly Process	World Bank
4. Private sector development	
Business climate	World Bank
Agriculture, forestry and mining sector reform	World Bank
5. Other	
External trade	IMF
Transport	World Bank
Urban development	World Bank
Decentralization	World Bank

Areas in which the World Bank leads and there is no direct IMF involvement

The Bank is supporting the preparation of the Poverty Reduction Strategy, and in that context, will continue to provide support for strengthening the statistical capacity and assist the Liberia Institute of Statistics & Geo-Information Services (LISGIS) with poverty diagnostics. In collaboration with LISGIS, a Core Welfare Indicator Questionnaire (CWIQ) was undertaken, which provides baseline data on dimensions of poverty. The Bank is also assisting LISGIS with the development of a monitoring and evaluation system for the PRS.

Areas in which the World Bank leads and its analysis serves as input into the IMF

The World Bank is leading an ongoing PEMFAR (Public Expenditure Management and Financial Accountability Review), including a PEFA (Public Expenditure and Financial Accountability) assessment to assist the national authorities strengthen their ability to (i) diagnose the condition of country public expenditure, procurement and financial accountability systems, and (ii) develop a practical sequence of reform and capacity-building actions, in a manner that encourages country ownership, reduces the transaction costs, enhance donor harmonization and better addresses developmental and fiduciary concerns leading to improved impact of reforms. The Bank is also facilitating a Diagnostic Trade Integration Study (draft completed), which includes detailed analyses of growth potential in Liberia's export sectors. Finally, the Bank is providing technical assistance to help develop a comprehensive civil service reform strategy.

Areas where the Fund takes the lead role and its analysis serves as input into the World Bank-supported program are in the dialogue on fiscal matters, which sets the overall envelope for public expenditures. The IMF is also providing technical assistance in the area of revenue administration.

The IMF leads the dialogue on policies to contain various expenditures in the public sector to ensure consistency with a cash-based balanced budget, and developing medium term projections to ensure fiscal sustainability. In these areas, the Bank takes into account the policy recommendations of the IMF and ensures that its own policy advice is consistent.

Areas in which the IMF leads, and there is no direct World Bank involvement relate to the dialogue on monetary policy, interest rates, the exchange rate, the balance of payments, and related statistical and measurement issues.

Appendix III. Liberia—Statistical Issues

1. Severe weaknesses in economic statistics hamper effective surveillance, largely because the civil war caused widespread destruction of databases and the loss of administrative and institutional capacity. Several STA missions have visited Monrovia in recent years to assist the authorities in rebuilding capacity to compile statistics in the areas of national accounts, price, monetary, fiscal and balance of payments statistics. Nevertheless, persistent weaknesses have required Fund staff to estimate historical data, particularly on output.

2. The government passed legislation in July 2004 to create the Liberia Institute of Statistics and Geo-Information Services (LISGIS) as a semi-autonomous agency. This agency will have the lead in coordinating and reestablishing national economic and social statistics.

3. As one of twenty-two countries participating in the Fund's General Data Dissemination System (GDDS) Project for Anglophone Africa (funded by the U.K. Department for International Development), Liberia has undertaken to use the GDDS as a framework to develop its national statistical system. Metadata and plans for improving the data over the short and medium term have been posted on the Fund's Dissemination Standards Bulletin Board (DSBB) since October 24, 2005.

4. The Central Bank of Liberia (CBL) regularly reports monetary, financial and exchange rate statistics for publication in *International Financial Statistics (IFS)*, but the timeliness of the reports needs to be improved. The CBL also publishes data on money and banking, prices, output, fiscal operations, debt, interest, exchange rates, and foreign trade on a bi-monthly basis with a lag of about six months in the *Liberia Financial Statistics*. It also publishes the quarterly *Financial and Economic Bulletin*, covering the previous four quarters, with a lag of about six months.

Real sector

5. Annual estimates of production by sector are prepared by the LISGIS. The Fund staff has estimated total GDP by sectoral origin for the period 1997–2006 with the assistance of the MPEA and LISGIS. National accounts data would benefit from: (i) the establishment of a national business register; and (ii) the resumption of an annual Establishment Survey and National Accounts Questionnaire for manufacturing, mining, utilities and agriculture. Estimates for GDP by expenditure are not available. A Household Income and Expenditure Survey is needed as a basis for more reliable data.

Prices

6. In January 2007, the authorities, in line with STA recommendations, formally adopted the Harmonized Consumer Price Index (HCPI). The HCPI is based on an expanded

basket of goods and services consistent with the ECOWAS harmonized market basket, and updated weights (using consumption patterns in neighboring countries in the absence of an updated household survey). The authorities have compiled data for this index since October 2005. Prior to January 2007, price data were based on the Monrovia Consumer Price Index (MCPI) which contained a basket of only 79 items, which were weighted according to a household income and expenditure survey from 1964.

Government finance statistics

7. The authorities regularly provide staff with information on fiscal accounts on a cash and commitment basis. The Ministry of Finance (MoF) provides monthly disaggregated data on government revenue and on current and capital expenditure. There is scope, for improving the quality of the government finance statistics, including reporting on financing items and expenditures on domestic debt and arrears. Efforts have begun to move to the GFSM 2001, including participation of an official in a Fund-sponsored GFS training course. The authorities have not reported data for publication in the *Government Financial Statistics Yearbook (GFSY)* since 1988 and have not reported data for publication in the *IFS* for several years.

Monetary statistics

8. The CBL has made progress in the transition of the compilation of monetary data to a new system based on the methodology prescribed in the IMF's *Monetary and Financial Statistics Manual*. The CBL has started compiling standardized report forms (SRFs) for reporting monetary data to the IMF. Despite these achievements, further steps are needed to strengthen the CBL's accounting system, including proper accounting of foreign reserves, segregating required reserves by currency denomination, and adequate classification of other assets and liabilities. In addition, while the reporting of preliminary statistics by commercial banks has improved, the response by banks to requests for explanations and follow-up to inconsistencies continues to be weak. An STA follow-up mission in November 2007 resolved several outstanding methodological issues. It also assisted the CBL to update the standardized report forms and developed an integrated monetary data base, which produces alternative outputs for use by the authorities, STA and AFR. The mission further recommended that the CBL submit monthly SRF data to STA for publication.

Balance of payments and external debt

9. Official balance of payments statistics are not reported comprehensively. However, the Fund staff has prepared provisional balance of payments statistics in cooperation with the CBL, the Ministry of Commerce (MoC), MPEA, and the MoF. The CBL is responsible for compiling the balance of payments in coordination with other agencies. Some progress has been made in compiling certain current and financial account components—mainly on trade and related services, government expenditures, remittances, and on nonresident deposits in the financial account—but there is a lack of primary source data and errors in distinguishing

between components in services, income and transfers. An effort should be made to resolve and reconcile the significant discrepancies in trade data reported by the various agencies. The CBL has completed a census of foreign direct investment enterprises in preparation for an investment survey following the recommendations by an STA mission. In November 2006 an STA mission set out recommendations to strengthen compilation of balance of payments statistics in the CBL including training of staff. In March 2007, STA approved a long-term advisor to assist the CBL in improving balance of payments data. An official from the CBL attended the IMF's balance of payments statistics course in Washington in May/June 2007.

10. Significant gaps exist in the records of external public debt, particularly those related to bilateral and commercial creditors. An STA mission in November 2006 identified inadequate staffing and poor coordination with data providers as key impediments to improving balance of payments statistics. A task force comprising staff seconded from the CBL, MoF, MPEA, General Auditing Office (GAO) and the Bureau of the Budget (BoB) is making progress in obtaining loan agreements and financial statements from external creditors to update the external debt database maintained by the MoF. On training, STA trained three officials in 2005—one in balance of payments and two in debt statistics. Another official from the CBL was selected for the 2007 INS BOP course in Washington D.C. The authorities have also engaged the services of an international financial advisor to assist with rebuilding the database on external commercial debt.

Liberia—Table of Common Indicators Required for Surveillance
As of January 31, 2008

	Date of latest observation	Date received	Frequency of Data[4]	Frequency of Reporting[4]	Frequency of publication[4]
Exchange Rates	Jan. 2008	Dec. 2007	D	M	B
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec. 2007	Jan 2008	M	M	B
Reserve/Base Money	Dec. 2007	Jan. 2008	M	M	B
Broad Money	Dec. 2007	Jan. 2008	M	M	B
Central Bank Balance Sheet	Dec. 2007	Jan. 2008	M	M	B
Consolidated Balance Sheet of the Banking System	Dec. 2007	Jan. 2008	M	M	B
Interest Rates	Dec. 2007	Jan. 2008	M	M	B
Consumer Price Index	Jan. 2008	Feb. 2008	M	M	B
Revenue, Expenditure, Balance and Composition of Financing[2] – General Government[3]	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing[2]– Central Government	Apr. 2007	May 2007	M	M	B
Stocks of Central Government and Central Government-Guaranteed Debt	Mar. 2006	May 2006	Q	B	B
External Current Account Balance	2006	Jan. 2008	A	I	I
Exports and Imports of Goods and Services	Dec. 2005	Dec. 2005	M	Q	B
GDP/GNP	N/A	N/A	N/A	N/A	N/A
Gross External Debt	Jun. 2007	Oct. 2007	Q	B	B

[1] Includes reserve assets pledged or otherwise encumbered.
[2] Foreign, domestic bank, and domestic nonbank financing.
[3] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.
[4] Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA)

Press Release No. 08/52
FOR IMMEDIATE RELEASE
March 14, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Fully Restores Liberia's IMF Status, Approves Financial Support Amounting to US$952 Million and HIPC Decision Point Designation

The Executive Board of the International Monetary Fund (IMF) today approved a range of measures to complete the steps necessary for Liberia to fully normalize financial relations after more than two decades of protracted arrears to the IMF. The Board decisions also enabled it to commit IMF financial support amounting to a combined SDR 582 million (about US$952 million), and to agree in principle to designate Liberia as a Decision Point country under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

Normalization of relations includes the Executive Board's agreement to restore Liberia's voting and related rights, and its decision to restore Liberia's eligibility to use the general resources of the Fund. The suspension of Liberia's rights to use SDRs was also lifted after overdue obligations to the IMF were cleared through a bridge loan amounting to an equivalent to SDR 543 million (about US$888 million).

Financial support approved by the Executive Board includes a three-year, SDR 239.02 million (about US$391 million) arrangement under the Poverty Reduction and Growth Facility (PRGF) and a SDR 342.77 million (about US$561 million) arrangement under the Extended Fund Facility (EFF) in support of the Liberia government's economic program covering 2008-10.

The Executive Board's decisions allow an immediate disbursement to Liberia of an amount equivalent to SDR 550.03 million (about US$900 million) under the arrangements. The remaining SDR 31.76 million (about US$52 million) will be drawn in six installments.

Executive Directors also agreed that Liberia has taken the steps necessary to reach the Decision Point under the enhanced HIPC Initiative. A separate press release regarding these deliberations will be issued jointly with the World Bank following consideration of the HIPC Decision Point by the Bank's Executive Board, which is expected early next week.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty and reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for

macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Assistance under the EFF is given to IMF member nations with economies suffering from serious balance of payment difficulties caused by structural imbalances in production, trade and prices. Or alternatively, to those countries whose economies are characterized by slow growth and an inherently weak balance of payments position. Drawings can be made over a period of three years under conditions similar to IMF standby drawings.

At the conclusion of the IMF Executive Board's discussion of Liberia's relations with the Fund and the country's requests for three-year arrangements under the PRGF and EFF, Mr. Murilo Portugal, Deputy Managing Director and Acting chair, issued the following statement:

"Liberia reached an important milestone today in normalizing its financial relations with the IMF by clearing its long overdue financial obligations. Bridge loans by the United States Government to the Government of Liberia helped to clear its arrears to the IMF and pay for its quota increase under the 11th General Review. A large number of IMF member countries contributed to the financing package required for the IMF to provide debt relief to Liberia.

"Liberia has continued to make satisfactory progress in implementing its IMF staff-monitored program. This has helped to maintain macroeconomic stability, support the economic recovery, and strengthen public financial management and the financial sector. Liberia's medium-term economic policy framework, to be supported by arrangements under the IMF's Poverty Reduction and Growth Facility and Extended Fund Facility, is appropriately aligned with the government's poverty reduction strategy. The government's reform objectives are ambitious, and will require continued strong commitment to the economic program to ensure achievement of key benchmarks. Continued financial and technical support from the international community will be important to support the government's efforts.

"Over the past two years, Liberia has strengthened public expenditure management and financial transparency, and increased government revenues. Further efforts are required to improve budget implementation without weakening the procedures for approving, controlling and monitoring spending. Adoption of a comprehensive public financial management law will be an important step in this regard, and would allow for further improvements in budget preparation and implementation and a more efficient allocation of government resources to achieve Liberia's poverty reduction goals.

"Liberia has also made good progress in strengthening governance. An important step in this regard was the adoption of a comprehensive anti-corruption strategy by the government. Finalization of legal and other arrangements for establishing an independent anti-corruption commission, as called for in the government's economic strategy, is important to firmly establish an environment of zero tolerance for corruption.

"Liberia's monetary policy is anchored on seeking to maintain broad exchange rate stability. However, in view of the still-low level of international reserves, continued efforts to strengthen the available instruments for managing domestic liquidity will be important.

"Liberia has fulfilled the requirements to reach the decision point under the Enhanced HIPC Initiative. Liberia could reach the HIPC Initiative completion point following satisfactory performance under the Fund-supported program, implementation of the poverty reduction strategy for at least one year, and implementation of proposed measures in public financial management, the social sectors, debt management, and governance," Mr. Portugal stated.

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**Statement by Peter Gakunu, Executive Director for Liberia
and Ita Mannathoko, Advisor to Executive Director
March 14, 2008**

My authorities request the support of Executive Directors for:

i. *Approval of the SMP review, a three-year arrangement under the Poverty Reduction and Growth Facility (SDR 239.02 million), and the Extended Fund Facility (SDR 342.77 million);*
ii. *Restoration of voting rights and eligibility to use GRF and SDR facilities;*
iii. *Approval of Liberia's qualification for assistance under the HIPC Initiative as per the decision point assessment;*[1]
iv. *Approval for the IMF to provide interim assistance between the decision and completion points, towards reducing the NPV of the debt to exports ratio to 150 percent; and*
v. *An agreement that the HIPC completion point will be reached once the agreed triggers (Box 3) have been met.*

The Liberian government has made every effort to ensure that the qualification criteria required for the decisions in (i), (ii) and (iii) above are satisfied, and the authorities are committed to working hard under the new program to reach the completion point in (v). The assessment of risk to the Fund shows that Liberia will be able to meet its obligations to the IMF under the above arrangements.

[1] In addition, on the process for clearing arrears, repaying the bridge loan needed to clear Liberia's arrears to the Fund will require exceptional access under both the PRGF and EFF. The staff propose an upfront disbursement of the entire amount under the EFF in view of the large financing requirements for clearing arrears.

Performance Under the Staff Monitored Program

In order to qualify for HIPC assistance, Liberia has had to establish a performance track record that meets the initiative's standards. It is encouraging to report that the country has done this. Performance under the SMPs through December 2007 has been satisfactory and successfully meets the standards for upper credit tranche conditionality. For the current SMP, the only criterion outstanding has been with regard to the continued accrual of external payments arrears on old debt. However, as Directors are aware, the accrual is attributable in part to delays in securing donor pledges for arrears clearance and in reaching the HIPC decision point so that the remaining Paris Club and commercial debt can be addressed under the HIPC framework. For their part, the authorities have undertaken not to incur arrears on the external debt that Liberia owes or guarantees, except for the external payments arrears already arising from government debt that is being renegotiated with creditors.

Last year, the authorities achieved all of the quantitative benchmarks, except for the one relating to Central Bank of Liberia (CBL) expenditure. However, missing the target did not compromise the underlying goal of keeping spending within budget. CBL expenditures in 2007 did exceed the ceiling agreed for the SMP, but this was a result of capital expenditure related to the printing of Liberian dollar banknotes in response to an increase in the use of Liberian dollars agreed under the program. The CBL, nevertheless, achieved a surplus and so did not compromise the underlying goal. In addition, the CBL target for increasing foreign assets was met. Notwithstanding the fact that the underlying goal was met, the authorities recognize the importance of meeting this benchmark and are committed to guarding against a recurrence of this type in the future.

The authorities have made good progress in achieving the structural benchmarks, though a number of them required more time than was programmed. Just one benchmark is outstanding from December 2007, relating to the development of a statistics plan. The authorities recognize the importance of finalizing the medium-term statistics plan and hope to reach agreement with the TA provider on the final document in time to meet the new end-March benchmark. In addition, they have commenced efforts to improve data production and dissemination, including for monetary and fiscal statistics. This will help to better inform policies implemented as part of the program.

New PRGF/EFF Program will enable Normalization of External Debt

The authorities expect that satisfactory performance under the PRGF/EFF-supported program will pave the way for comprehensive treatment of external debt through HIPC and other debt relief. Given their past track record, they believe that they can sustain strong program performance so that Liberia is able to receive debt relief by 2010 in the context of the HIPC and MDRI and beyond-HIPC debt relief. The relief will include financial assistance from other multilateral financial institutions, the Paris Club, and other official bilateral creditors. Liberia also expects to resolve its arrears to private creditors through an appropriate agreement.

Analysis of Repayment Capacity shows Little Risk to Fund

As long as performance is satisfactory under the PRGF and extended arrangements, there is limited risk from Liberia's failure to repay the Fund. In this regard, the authorities are strongly committed to effective program implementation, and intend to maintain a strong track record of policy implementation under the new program to help to mitigate risk associated with the repayment of obligations to the Fund.

Sustained Donor Support is Vital in the Face of Stringent Borrowing Constraints

For the program to continue to be successful, timely financial and technical support from donors will be essential. While the PRGF/EFF program is subject to considerable risks, these could be tempered with the sustained assistance of the development community. The authorities deserve this support from the international community. The authorities have so far received assistance from donors to rebuild capacity to formulate and implement policy, including in statistics and this may need to be broadened. Further assistance especially financial support, starting in the first year of the program, remains critical to enhance the authorities' efforts to meet various benchmarks (such as that relating to the anti-corruption commission).

Grant financing will be crucial to support reconstruction and rehabilitation. Since the debt sustainability analysis in the HIPC Decision Point document makes clear that Liberia is in debt distress and that there are risks associated with new borrowing, the authorities are increasingly dependent on the development community to provide grant-based support. We therefore, urge the donor community to come forward with adequate grant resources to enable Liberia to recover, and achieve sustainable growth. While the debt relief proposed will eventually create the fiscal space needed for reconstruction and poverty reduction investments, from the authorities' perspective, it is equally important that they get the necessary financing to rebuild the economy sooner rather than later. The current government, has to deliver on promises made to the people of Liberia.

Concluding Remarks

After a change of government, re-engagement with the IMF and other donors, and the implementation of an ambitious reform program, Liberia is now on the path to recovery. The authorities are grateful for all the support received so far which has helped them overcome various critical setbacks, including overwhelming arrears inherited from previous war-time regimes. The Liberian government remains mindful of the challenges ahead, and remains resolute in its commitment to carry out the necessary measures to rebuild the economy and reach the HIPC completion point. My authorities look forward to the continued support of Executive Directors and the development community in this regard.