

INTERNATIONAL MONETARY FUND



# **Staff Country Reports**

**Liberia: 2008 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Request for Waiver and Modification of Performance Criteria—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Liberia**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2008 Article IV consultation with Liberia and the first review under the three-year arrangement under the Poverty Reduction and Growth Facility, financing assurances review, and request for waiver and modification of performance criteria for Liberia, the following documents have been released and are included in this package:

- The staff report for the combined 2008 Article IV Consultation and the First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Request for a Waiver and a Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on October 31, 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 December 3, 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 public information notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its December 22, 2008 discussion of the staff report that concluded the Article IV consultation and completed the review and request, respectively.
- A statement by the Executive Director for Liberia.

The document listed below has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Liberia\*

Memorandum of Economic and Financial Policies by the authorities of Liberia\*

Technical Memorandum of Understanding\*

\*Also included in the Staff Report

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

**Staff Report for the 2008 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Request for Waiver and Modification of Performance Criteria**

Prepared by African Department  
(In consultation with other departments)

Approved by Michael Atingi Ego and Patricia Alonso-Gamo

December 3, 2008

- A mission (Mr. Powell (Head), Mr. Erasmus, Mr. Gottschalk and Ms. Dlamini-Kunene (all AFR), Mr. Kitili (SPR), Mr. Price (FIN), and Mr. Tharkur (Resident Representative)) visited Monrovia October 20-31 to conduct discussions for the 2008 Article IV consultation, the first review of the Poverty Reduction and Growth Facility (PRGF) arrangement, and policies for the second year of the program.
- The mission met with Minister of Finance Ngafuan, Central Bank of Liberia Governor Jones, other senior government officials, and representatives of the legislature, business community, commercial banks, civil society, and the international community. The mission briefed President Johnson-Sirleaf on its main findings.
- Liberia's exchange rate regime is a managed float with no predetermined path; however the de facto regime is consistent with a conventional peg. Liberia's exchange system is free of restrictions on payments and transfers for current international transactions—the authorities have not indicated immediate plans to accept the obligations of Article VIII.
- The Executive Board approved three-year PRGF and Extended Fund Facility (EFF) arrangements on March 14, 2008 in the amount of SDR 581.8 million (450 percent of quota). SDR 550.03 was disbursed at approval in order to facilitate the clearance of long-standing arrears to the Fund. The EFF arrangement lapsed following disbursement of the full amount under the arrangement in March 2008. Upon completion of the first review, a disbursement of SDR 7.0 million (5.4 percent of quota) will become available.
- Liberia reached the decision point for the Highly Indebted Poor Countries Initiative on March 18, 2008. The Executive Board approved interim assistance in the amount of SDR 15.03 million to ensure that Liberia's debt service payments to the Fund do not exceed about SDR 0.44 million annually, close to the level of payments established under the staff-monitored program.
- The previous Article IV consultation was concluded on April 26, 2006. The staff report is available at <http://www.imf.org/external/pubs/cat/longres.cfm?sk=19204.0>

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## EXECUTIVE SUMMARY

- **The postwar economic recovery continued in 2008**, but Liberia was significantly affected by the increase in world food and fuel prices in the first half of the year. Year-on-year inflation peaked at almost 27 percent in August, and the trade deficit doubled in the first three quarters of the year compared with the same period in 2007.
- **Prospects for 2009 are favorable, with solid growth and falling inflation projected.** Nonetheless, the global slowdown is likely to affect foreign direct investment, exports and remittance flows.
- **The authorities have formulated a comprehensive food security strategy** designed to mitigate the impact of domestic rice price increases, ensure domestic supply and access to food for vulnerable households through safety nets, and promote domestic production. Given limited public resources, they should continue to focus on securing donor support to finance the strategy.
- **Revenue projections in the 2008/09 (July-June) budget are subject to downside risks**, particularly related to one-off nontax revenue sources. The authorities need to put in place an effective cash flow management system as soon as possible and in the meantime identify potential expenditure reductions in case revenue falls short.
- **Staff considers the Liberian dollar to be in line with fundamentals.** However, a marked appreciation of the U.S. dollar in the last quarter of 2008 is likely to slow growth through its impact on Liberia's main exports. Staff and authorities agreed that the main factors affecting Liberia's international competitiveness are inadequate infrastructure and a poor institutional environment for private sector development.
- **Liberia is highly dollarized.** U.S. dollars account for an estimated 90 percent of the money supply. Policy initiatives to strengthen the demand for Liberian dollars should be market-based and focus particularly on building policy credibility and on financial market development.
- **Performance on the PRGF-supported program through June was satisfactory, and the program remains on track.** Staff support the authorities' request for a waiver for the end-June structural performance criterion relating to the merger of the Bureau of the Budget into the Ministry of Finance; legislation to this effect was passed only in September. Macroeconomic policies for the second year of the program are aimed at continuing to firm up public finance management (PFM), monetary and financial sector policies, and governance and to improve data availability and quality. The authorities are firmly committed to reform, but there are considerable risks relating to capacity constraints and the need for the cooperation of the opposition-led legislature. Continued donor support will be important to achieving program objectives.

## I. INTRODUCTION

1. **Liberia is a post-conflict country with unsustainable debt.** In March 2008, after a major fund-raising effort, its long standing arrears to the IMF were cleared, voting rights were restored, and large Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF) arrangements were approved. At the same time Liberia reached the decision point for the Heavily Indebted Poor Countries (HIPC) Initiative. Liberia is receiving substantial interim assistance from the IMF to keep cash debt service payments to manageable levels until the completion point, currently projected for 2010.

2. **Liberia has made significant progress with its economic reforms since the 2006 Article IV consultation.** A number of 2006 Article IV recommendations, addressed as part of the 2006-2007 Staff-Monitored Program, have been implemented (Box 1), and the three-year Poverty Reduction Strategy Paper (PRSP), which the PRGF is now supporting, lays out a strategy to sustain higher economic growth by maintaining macroeconomic stability, encouraging private sector investment and improving infrastructure, governance and security.

**Box 1. 2006 Article IV Recommendations**

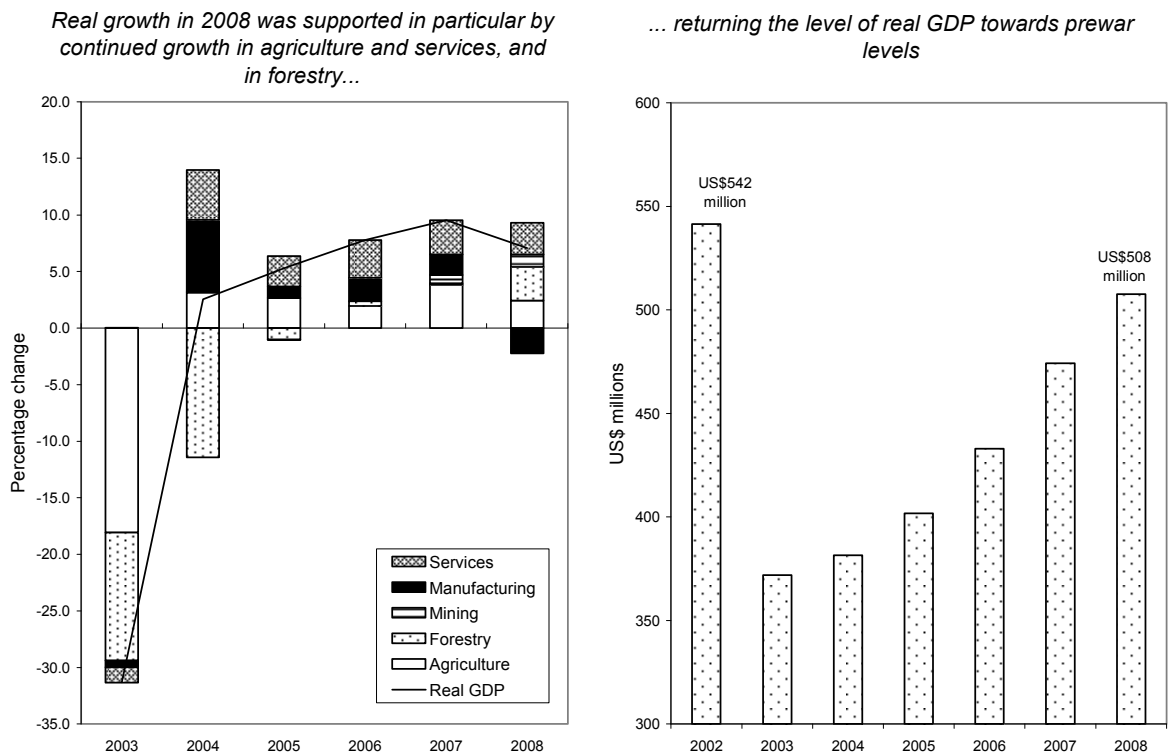
Advice	Status
Establish an effective and transparent budgeting process.	Public Finance Management has improved and a comprehensive PFM law has been submitted to the legislature.
Ensure allotments are consistent with available resources to prevent new payment arrears.	No domestic arrears have accumulated since 2006, except temporary wage arrears due to late legislative approval of the budget.
Continue efforts to strengthen public revenues.	Government revenues increased by nearly 150 percent between FY2005/06-2007/08.
Eliminate the central bank budget deficit.	The Central Bank of Liberia has been balancing its budget since 2007.
Strengthen domestic banks.	All banks have been recapitalized, and by year-end will exceed the minimum 10 percent capital adequacy ratio.
Develop national anticorruption strategy.	The strategy was adopted in 2007, and an anticorruption commission has been established.
Complete contracts and concessions review.	Review was completed in December 2006.
Develop a strategy to address domestic arrears.	A strategy was adopted in January 2007.



3. **The international community is supporting the Liberian government's efforts to reform the economy.** A June 2008 partners conference, which focused on infrastructure, confirmed that donor support for Liberia is still high at US\$85-\$100 per capita. However, little support is provided through the budget. The challenge therefore is to align donor activities with the PRSP and to continue reinforcing public finance management (PFM) to attract more budget support. The government maintains regular dialogue with donors through the Liberia Reconstruction and Development Committee and the Governance and Economic Management Assistance Program.

## II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

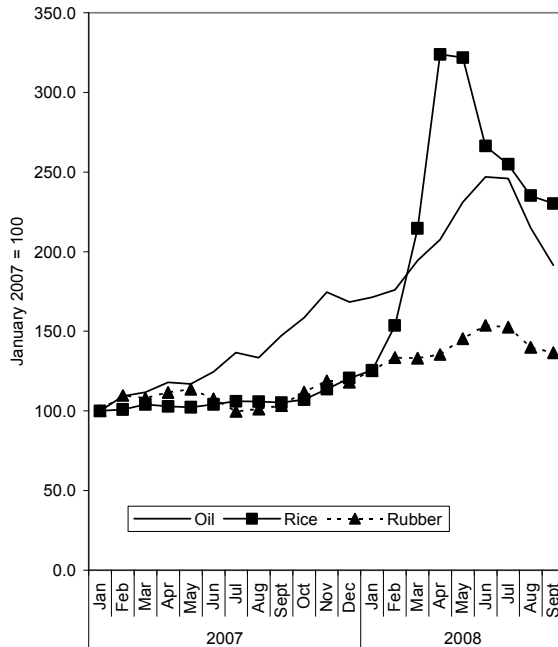
4. **Although real GDP growth remains buoyant, it eased in 2008 to about 7.1 percent.**



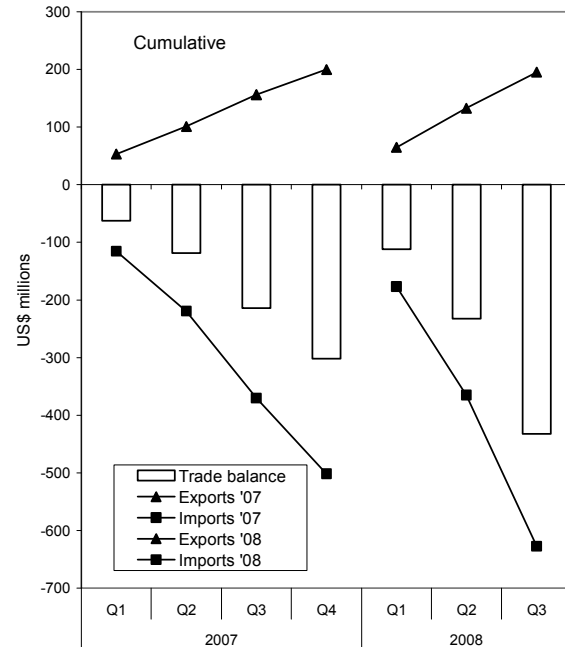
Sources: Liberian authorities, and Fund staff calculations and estimates.

## 5. Higher world commodity prices have pushed up inflation.

*Price increases in key imported commodities outstripped increases in prices of Liberia's main export, rubber.*

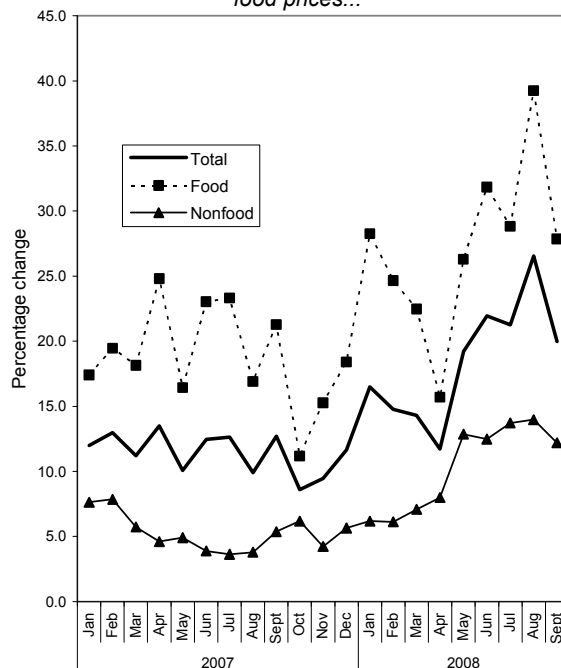


*... and the trade deficit surged in the 1<sup>st</sup> three quarters of 2008 to double the level recorded in the same period in 2007.*

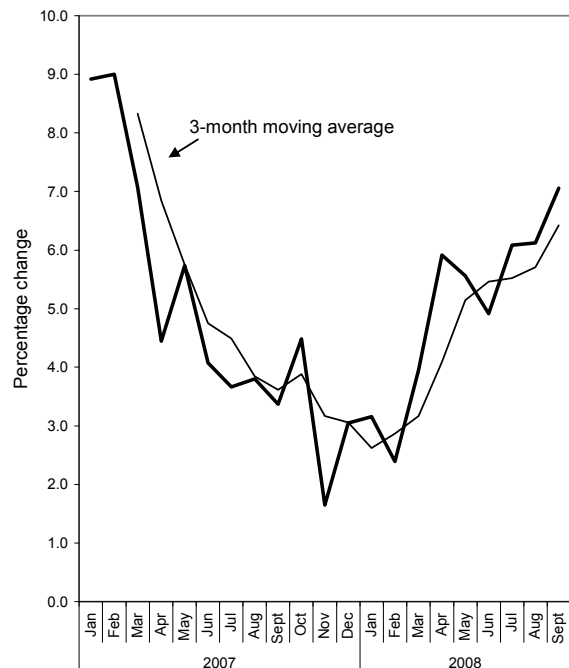


Source: Liberian authorities; and Fund staff calculations.

*Year-on-year inflation peaked at 26.5 percent in August, mostly on account of large increases in food prices...*

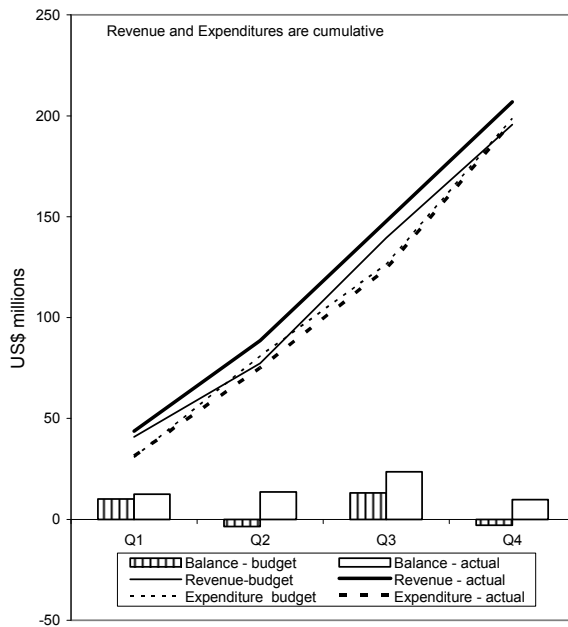


*... core inflation (excluding food and fuel prices) also started rising.*



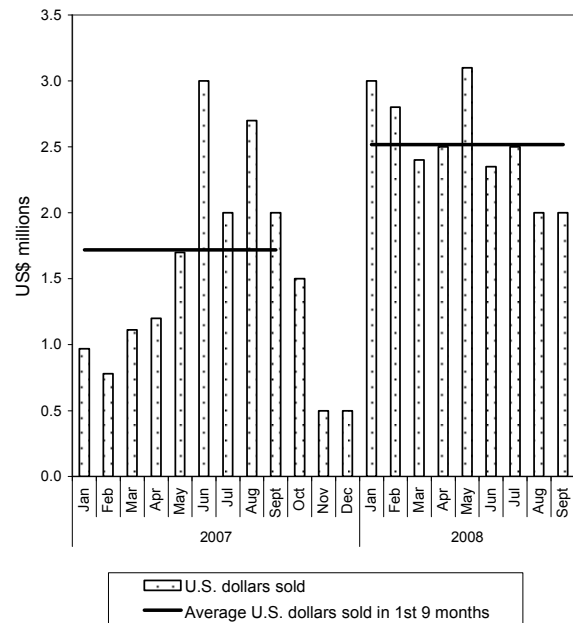
Sources: Liberian authorities, and Fund staff calculations.

*Fiscal policy in 2007/08 was tight, mostly because of revenue overperformance...*



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

*... while the CBL focused on maintaining exchange rate stability; increasing on average the amount of foreign exchange sold through the auction.*



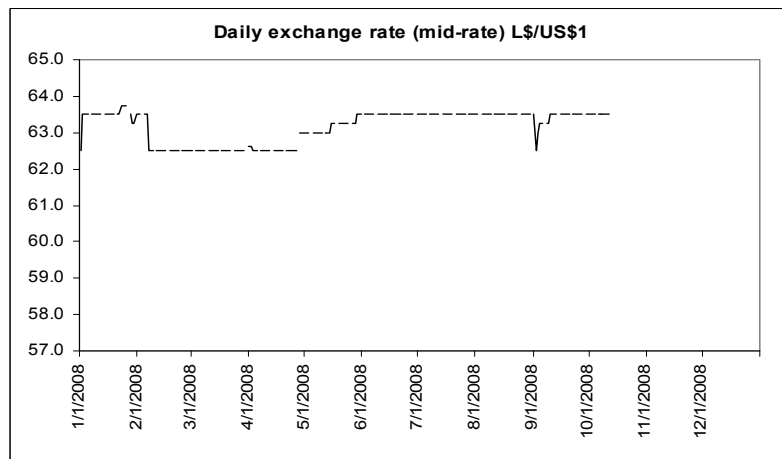
6. **The L\$/US\$1 exchange rate was relatively stable in the first nine months of 2008, depreciating by 3.1 percent through September.**

Liberia's de facto exchange rate regime was consistent with a conventional peg.

7. **Performance on the program through June was good, and the program remains on track.**

All of the quantitative benchmarks and performance criteria (PCs) through June were achieved

(MEFP, Table 1), as were all of the structural performance benchmarks and PCs (MEFP, Table 2), albeit some with a delay. Because legislation to approve the merger of the Bureau of the Budget into the Ministry of Finance (an end-June PC) was not approved until September, the authorities are requesting a waiver.



### III. SURVEILLANCE ISSUES

8. Policy discussions addressed the following challenges to meeting the authorities' macroeconomic objectives: (i) coping with higher commodity prices and recent global

financial market turmoil; (ii) maintaining external stability; and (iii) challenges posed by Liberia's dual currency regime.

### **A. Policy Response to Global Economic Developments**

9. **Higher food and fuel prices had a major impact on Liberia in 2008.** In discussions the staff welcomed the development of a comprehensive food security policy (Box 2). They agreed with the authorities' decision to temporarily suspend the rice import duty given the importance of rice in household consumption and the prevalence of poverty. In view of limited public resources, including the government's commitment to a zero borrowing policy, staff welcomed the strong support from the international community to finance the key elements of the strategy, particularly on providing support to the most vulnerable people. Because world rice prices are projected to remain high in 2009, staff and the authorities agreed that the import duties on rice should remain suspended, and that the authorities should continue to seek donor assistance to finance the other elements of their strategy.

10. **Medium-term economic prospects are favorable (text table).** Real growth is projected to rise to about 13 percent in 2009 with the expected resumption of logging and iron mining operations, inflation is projected to decline to single digits and the current account deficit is likely to narrow as key import prices, especially for oil decline. Reserves coverage, in terms of months of goods and services imports, is projected to remain stable at the current low level over the medium term.<sup>1</sup> Staff and the authorities agreed, however, that there are downside risks to the growth forecast since a sharper-than-projected slowdown in global growth or a decline in world commodity prices could reduce demand for Liberia's key exports, or delay investment activity in these sectors, more than projected. While Liberia's financial sector is not well integrated with international financial markets, staff emphasized the importance of closely supervising banks, which on average hold about one-fifth of their total assets with overseas banks. Should a portion of these assets become impaired or subject to write-down, it could cause liquidity or solvency problems for Liberian banks. A slow-down in remittances or donor inflows could also negatively impact economic prospects and the exchange rate.

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<sup>1</sup> The program does not target a more ambitious accumulation of foreign reserves since almost all donor support is provided outside the government budget, and the only supply of foreign exchange to the CBL is through the monthly purchase of Liberian dollars by the government for the payment of civil service salaries and wages.

## Box 2. Liberia: Government Response to Commodity Price Increases

Increases in international commodity prices have contributed to a significant acceleration in inflation in Liberia, where increases have largely been allowed to pass through to the domestic economy. Liberia has been particularly affected by increases in the price of rice, which accounts for 50 percent of the daily caloric intake of households; an estimated 66 percent of annual needs is imported.

Higher food and fuel prices contributed to a widening of the trade deficit between 2007 and 2008 by about 18 percent of GDP.<sup>2</sup>

Responding to these developments is particularly challenging in Liberia because:

- about 64 percent of the population lives below the poverty line;
- the government has no access to new borrowing;
- international reserves are equal to less than one month's imports; and
- the scope for active monetary policy is limited since it is anchored on exchange rate stability.

Against this background, the government developed a comprehensive food security strategy to:

- *mitigate the impact of domestic rice price increases and ensure domestic supply:* (i) it temporarily suspended import duties on rice (at a cost of US\$8.4 million in lost revenues, 0.9 percent of GDP), agricultural and road building equipment, and agricultural materials and supplies; and (ii) it is exploring with other governments long-term supply agreements for rice.
- *ensure access to food for vulnerable households through safety nets.* Although targeting vulnerable groups is challenging, the government is instituting: (i) school feeding programs in urban areas; (ii) supplementary feeding programs for women and children; and (iii) food-for-work and cash-for-work programs.
- *promote domestic production through:* (i) expanding smallholder production by distributing seeds, fertilizer, and farm tools; (ii) expanding agricultural land and crop diversification; (iii) increasing marketable surpluses through postharvest interventions; and (iv) encouraging large-scale commercial rice farming.

After adopting its food security strategy, the government in June 2008 announced additional measures: it

- eliminated withholding tax on annual incomes of US\$840 and less (although this was consistent with the tax reform strategy);
- subsidized further gasoline price increases that affect the Monrovia Transit Authority (MTA);
- directed government ministries and agencies to review fee structures; and
- provided additional buses to the MTA to add routes.

Substantial support for this strategy has come from the World Food Program (US\$25 million), World Bank (US\$10 million), Germany (US\$20 million) and Libya (US\$30 million). Liberia will also receive funding from a UN special fund, and part of a proposed AfDB budget support operation of US\$18.5 million will be used to offset the impact of higher food and fuel prices on the budget.

<sup>2</sup> Ratios to GDP should be interpreted with caution because GDP is likely to be underestimated.

Liberia: Selected Economic Indicators, 2007-11

	2007	2008	2009	2010	2011
Real GDP growth (percentage change)	9.5	7.1	12.7	12.9	13.2
Forestry (contribution to GDP growth)	0.1	3.0	4.3	2.7	1.1
Mining (contribution to GDP growth)	0.7	1.1	3.1	3.7	7.7
Year-end inflation (percent)	11.7	14.0	5.0	5.0	5.0
Current account balance (incl. grants; percent of GDP)	-37.2	-40.0	-35.5	-26.8	-19.0
Gross official reserves (months of imports of goods and services)	0.7	0.7	0.7	0.8	0.8
Terms of trade (percentage change; deterioration -)	-10.7	-2.6	10.3	8.5	8.0

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

## B. Maintaining External Stability

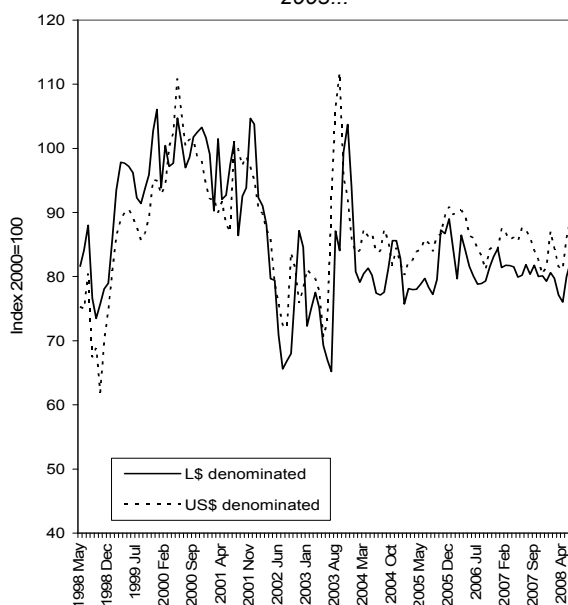
11. **Available information does not provide evidence that Liberia's exchange rate is either under- or overvalued (Box 3).** Liberia's economy is undergoing significant structural change after 14 years of civil war, and a lack of historical data further complicates quantitative analysis of the appropriateness of the exchange rate level. Moreover, Liberia is also highly dollarized (see Box 4), implying that exchange rate policy only has a limited role in bringing about required adjustment to balance of payments imbalances. However, Liberia's real effective exchange rate (REER) does not appear to be out of line with fundamentals. Following a sharp depreciation in 2000-03, in both Liberian dollar and U.S. dollar terms, the REER has remained relatively stable following the end of the civil war in 2003. Also, Liberia's terms of trade, on balance, continued to improve up to 2008, while export growth recovered strongly.

12. **Large current account deficits since the end of the civil war in 2003 mainly reflect an expansion in imports to assist postwar recovery and reconstruction.** While import demand is likely to remain high in the medium term because of continued imports related to reconstruction and foreign direct investment (FDI), it is expected to be offset by accelerating export growth, particularly as production of iron ore and timber resumes. The current account deficit, including grants, is therefore projected to decline substantially over the medium term, supported also by a sharp projected decline in scheduled debt service following the HIPC completion point. The modest spike in the REER in recent months reflects the rise in domestic inflation and the strengthening U.S. dollar. Staff and the authorities agreed that the appreciation of the U.S. dollar, if sustained, could undermine Liberia's external competitiveness, emphasizing the importance of addressing other factors that impact competitiveness.

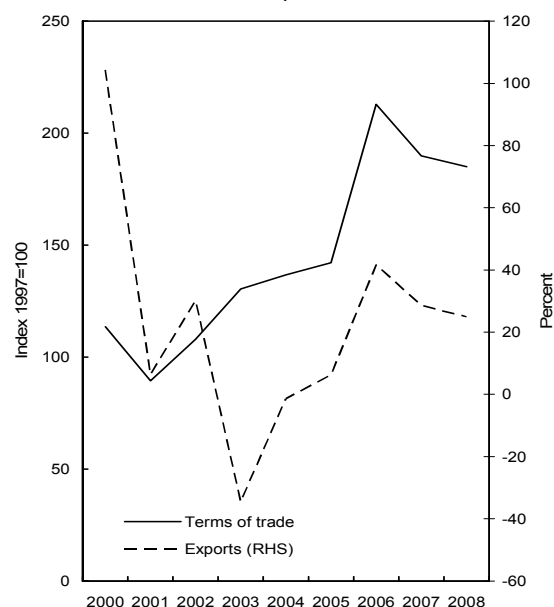
13. **Liberia's external debt is currently unsustainable, but is projected to improve.** The latest low-income country debt sustainability analysis for Liberia indicates that Liberia is in debt distress, but that debt dynamics are projected to be manageable following full delivery

### Box 3. Liberia: Assessing External Competitiveness

*Liberia's REER has been broadly stable since 2003...<sup>1</sup>*



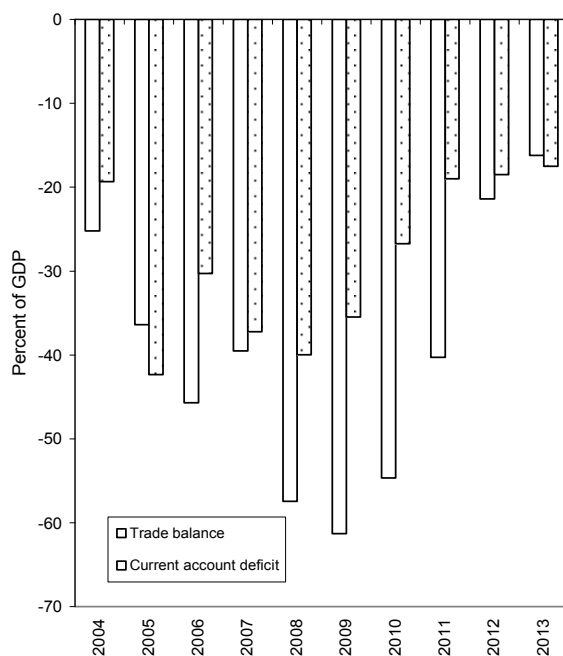
*... while its terms of trade and export growth has improved.*



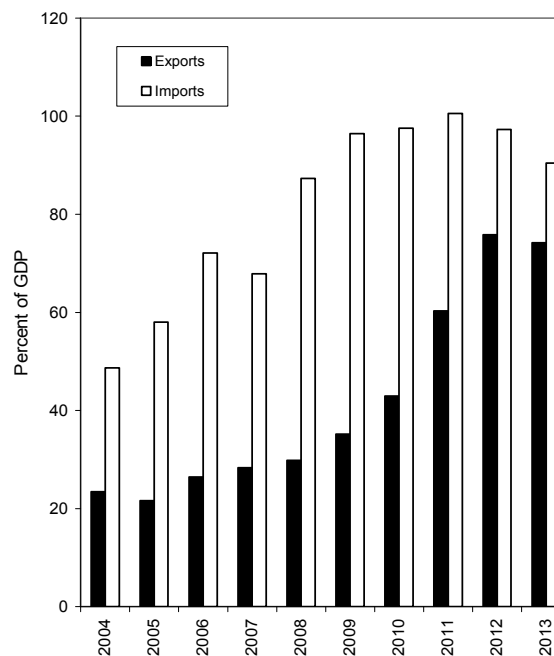
Source: Liberian authorities; and Fund staff calculations and projections.

<sup>1</sup> Given the high dollarization in Liberia, a U.S. dollar-denominated REER is also calculated.

*Over the medium term, the current account is projected to improve...*



*... supported by strong export growth.*



Source: Liberian authorities; and Fund staff projections.

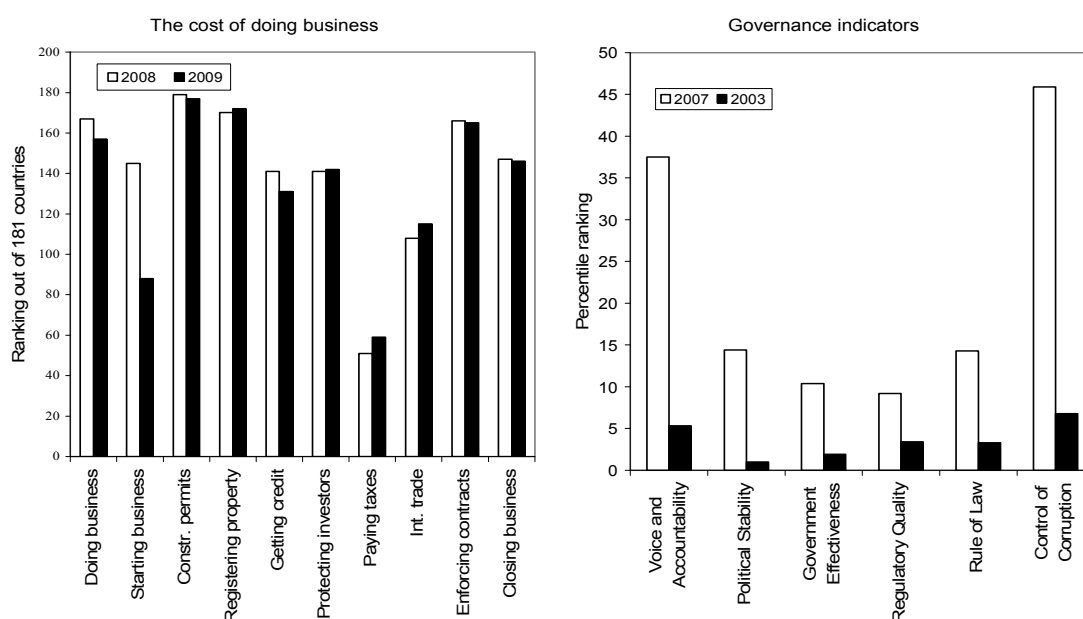
of HIPC, MDRI and IMF beyond-HIPC debt relief at the completion point and moderate new borrowing on highly concessional terms.<sup>3</sup>

14. **Liberia has the potential to significantly improve its competitiveness, but it must overcome significant structural bottlenecks.** In particular, it lacks the infrastructure it needs to exploit its comparative advantage in natural-resource-based export industries. The recent Diagnostic Trade Integration Study confirmed that in order to promote competitive value-added activities in export resource-based products, Liberia will need to also improve its investment climate by investing in physical infrastructure, particularly in usable roads and well functioning ports to facilitate the transport of export goods such as timber, iron ore and cocoa.

15. **The institutional environment for private sector development also needs improving.** While the World Bank *Doing Business* report for 2009 reports an improvement in the cost of doing business in 2008, Liberia still ranked only 157th out of 181 countries surveyed. Also, although there has been steady progress in improving governance since 2003, much remains to be done to improve Liberia's ranking on this indicator.

### Box 3. Liberia: Assessing External Competitiveness (concluded)

*The institutional environment for private sector development has improved, but more needs to be done.*



Source: World Bank Doing Business 2009, and Governance Indicators 1996-2007.

Percentile rank indicates rank among all countries in the world. Zero value corresponds to lowest rank, and 100 to highest rank.

<sup>3</sup> See Country Report No. 08/106, Supplement 1.



### C. Policy Options in a Dual Currency Regime

16. **Liberia operates a dual currency regime, and the authorities have expressed a desire to encourage greater use of the Liberian dollar.** In discussions, the staff noted that Liberia has a very long history of using the U.S. dollar as legal tender and that it is one of the world's most dollarized economies (Box 4). Staff also noted that economic performance since the end of the civil conflict in 2003 has been strong: real growth has accelerated, FDI has resumed, and inflation, except for the recent spike on account of world commodity price increases, has been held in the low double digits. The authorities agreed that policies to strengthen the demand for the Liberian dollar should be market-based, and in particular should be based on enhancing the credibility of economic policy and developing the financial market.

17. **Since building policy credibility may take time, staff noted some measures that could be implemented in the interim to strengthen the demand for the Liberian dollar.** These include: (i) improving the quality and increasing the denomination of Liberian dollar notes; (ii) increasing the use of the Liberian dollar as the unit of account; (iii) using Liberian dollars more in government transactions; (iv) encouraging agents to hold local-currency-denominated assets, e.g. by allowing interest rates on deposits in local and foreign currency to be market-determined; (v) encouraging the use of the Liberian dollar for payments, e.g., by requiring additional provisioning or capital for U.S. dollar loans to the nontradable sector; (vi) strengthening prudential regulations to ensure that foreign exchange risk is properly managed; and (vii) developing a modern payments system. Staff noted that a higher level of foreign reserves could also help to strengthen the demand for the Liberian dollar by boosting confidence in the currency. Staff warned, however, against trying to force the timetable for dedollarization, which could have destabilizing effects, discouraging dedollarization in the longer run.

### IV. PROGRAM DISCUSSIONS

18. **Macroeconomic policies for the second year of the program are aimed at making further progress in strengthening PFM, monetary and financial sector policies, and governance, and in improving data availability and quality.** Economic prospects in 2009 are generally favorable, although a further significant decline in global growth could adversely affect Liberia's growth prospects.

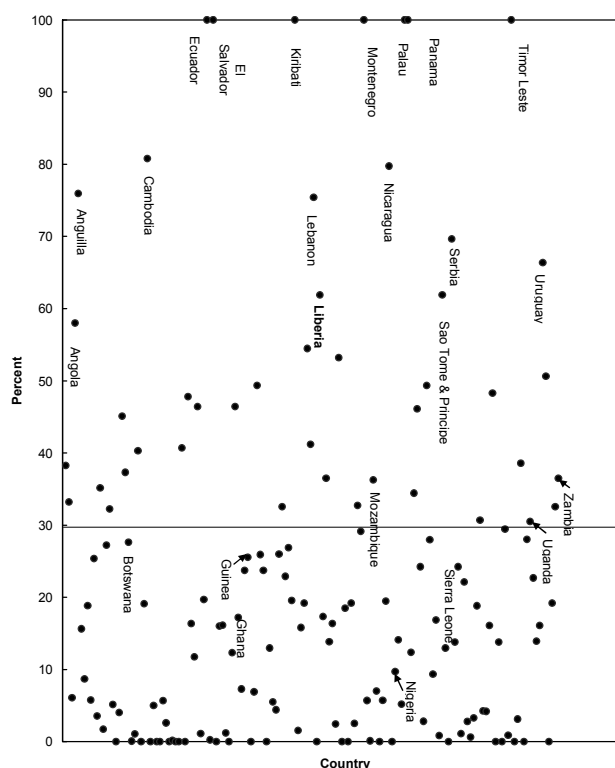
### Box 4. Cross-country experience with dedollarization

Liberia has been heavily dollarized since its founding as a country in 1847, although Liberian dollars (mostly coins) have circulated alongside the U.S. dollar. In the recent past, Charles Taylor issued Liberian dollar notes at par with the U.S. dollar during the 1989-97 civil war, and “Liberty” dollars were issued in areas controlled by ECOWAS in 1991 to invalidate notes looted from the central bank, effectively creating two currency zones. In 1997, the Central Bank of Liberia issued a new series of banknotes, after which the exchange rate was devalued to L\$43/US\$1. The U.S. dollar has remained official legal tender in Liberia.

Liberia is one of the most dollarized economies in the world. According to one measure, a country is considered highly dollarized if the ratio of foreign currency deposits to broad money exceeds 30 percent; in Liberia this ratio was 62 percent in 2007. Staff estimates show that if foreign currency in circulation is taken into consideration, U.S. dollars account on average for about 90 percent of the effective money supply.

Cross-country experience from highly dollarized economies offers important lessons for Liberia as the authorities consider their options for Liberia’s currency regime:

- dollarization is a common phenomenon;
- dollarization has not precluded satisfactory or even strong economic performance;
- most dollarized countries have not actively pursued dedollarization;
- dollarization is not easily reversed, even after the underlying causes have been removed;
- monetary policy can still be effective at controlling inflation in dollarized economies;
- results have been mixed for countries that have pursued dedollarization strategies, and only a few countries to date have successfully dedollarized (e.g. Israel, Poland, Chile, and Egypt);
- dedollarization is facilitated by a careful sequencing of policies—establishing policy credibility is a prerequisite;
- countries that have pursued a market-based dedollarization strategy were able to avoid costs associated with forced dedollarization, including financial disintermediation and/or capital flight.



<sup>1</sup> Other neighboring countries (Côte d'Ivoire, Benin, Burkina Faso, Guinea-Bissau, Mali, Niger, Senegal, and Togo) are members of the BCEAO, and holding of foreign currency deposits by residents is not allowed.  
Sources: IMF International Financial Statistics; and country desk economists.

### A. Fiscal Policy

19. **The 2008/09 budget again projects a strong increase in revenues (Table 3).**<sup>4</sup> The budget targets total spending of US\$270.2 million, to be financed from revenues of US\$248.9 million (an increase of 24½ percent over the 2007/08 budget outturn), and a budget deficit of 1.7 percent of GDP to be financed by a drawdown in government cash balances at the Central Bank of Liberia (CBL). Around US\$28.5 million of the projected revenues is related to payments from mining concessions yet to be finalized; however, on the upside, direct budget support of about US\$19 million to be provided by the World Bank and African Development Bank was not included in the 2008/09 budget. The authorities remain committed to operating a cash-based balanced budget—they will not borrow to finance a deficit or manage liquidity. The authorities have started putting an improved cash flow management framework in place, but it will likely take some time for it to become fully effective. In the meantime, staff and the authorities agreed on the need to identify expenditures that could be reduced if revenue shortfalls materialize.

20. **The authorities have drafted a comprehensive set of amendments to the Liberian Revenue Code designed to eliminate discretion in granting tax incentives (MEFP, ¶26).** Passage of these amendments is expected in early 2009. The next priority is drafting tax administrative regulations, for which the authorities have requested Fund technical assistance. On the revenue administration side, the authorities are in the process of launching ambitious projects for automating tax and customs administration operations.

21. **To provide a strong legal foundation for PFM, the authorities have submitted a comprehensive PFM law to the legislature, with passage expected in early 2009.** They have requested Fund technical assistance for drafting implementing regulations; the World Bank will help prepare manuals. Adoption of the regulations is a performance criterion under the program for 2009 (see MEFP Table 4). The authorities have also launched a comprehensive effort to computerize PFM. A computerized accounting system is being deployed to help automate bank reconciliation and implement a double-entry accounting standard in time for the next fiscal year (adoption of accounting standards, together with the expanded chart of accounts, is a program benchmark). Finally, the review of the Public Procurement and Concessions Act has been finalized and will be submitted to the legislature in 2009. In the meantime the authorities have commenced preparation of implementing regulations to provide guidance to ministries and agencies on the correct procurement procedures (a program benchmark).

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<sup>4</sup> The budget consists of a “core” budget and a “contingent” budget; the latter targets spending of US\$27.9 million, to be financed from revenues the authorities consider to be particularly uncertain (mostly related to additional payments from mining concessions and additional transfers from state-owned enterprises). These expenditures will only be authorized if these more uncertain revenues are collected and if the revenues targeted in the “core” budget are collected.

22. **The authorities have finalized validation of outstanding domestic debt and accepted claims totaling US\$300.5 million (MEFP, ¶23).** About US\$268 million of valid claims are held by the CBL, while valid claims amounting to approximately US\$51 million to private suppliers have been discounted in accordance with the government's domestic debt strategy to US\$11 million; the remaining claims consist of restructured bank loans and wage arrears.<sup>5 6</sup> The 2006 domestic debt strategy envisioned setting up a trust fund to help service this debt, but the authorities are now reconsidering this approach because a large number of claims were rejected, which reduced the funding need, and in light of a low probability of donor support for such a trust fund. Staff advised that the authorities should quickly decide on how they plan to provide the financing required for repaying these debts because they are sizable.

### **B. Monetary and Financial Sector Policies**

23. **Agreement was reached on the monetary program for 2009.** Monetary policy aims to limit inflation by keeping the exchange rate relatively stable.<sup>7</sup> To this end, the CBL uses foreign exchange auctions to manage Liberian dollar liquidity. In the current environment, there is the possibility of increased volatility of flows of U.S. dollars into and out of Liberia, which could put pressure on the exchange rate to depreciate. Staff and the authorities agreed that the authorities should not attempt to hold the exchange rate at a specific level, or to defend it against downward pressure from such exogenous shocks, because foreign reserves are still low.

24. **Staff and the authorities also agreed that efforts should continue to strengthen the current monetary policy framework.** In this context, it was agreed that the CBL will: (i) relaunch efforts to publicize the current policy framework; (ii) analyze the foreign exchange market to assess developments in the most important sources of supply of and demand for U.S. dollars in order to enhance the efficiency of the foreign exchange auction; and (iii) finalize and publicize the rules and regulations pertaining to the foreign exchange auction (an end-March program benchmark). Regarding the latter, staff suggested that the "special" auctions held occasionally for the foreign exchange bureaus be folded into the regular weekly auctions. In addition, the authorities agreed on the importance of beginning to prepare for eventual reintroduction of short-term securities, starting with the basic operational

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<sup>5</sup> See Country Report No. 07/356, for a description of Liberia's domestic debt resolution strategy.

<sup>6</sup> The finalized amount of domestic claims on the government is not significantly different from that resulting from the 2006 audit (US\$272 million), and does not materially affect the debt sustainability assessment presented in Country Report No. 08/106, Supplement 1.

<sup>7</sup> Given its very open economy, changes in Liberia's exchange rate translate swiftly into changes in the prices of goods and services priced in Liberian dollars, and because these are mostly used in small transactions by the poorest segment of the population, stability in the exchange rate has been the main focus for monetary management.

framework for auctioning and trading these securities. To support the demand for Liberian dollars, the authorities indicated they would consider some of the policy actions identified above (¶17).

**25. Substantial progress has been achieved in strengthening the banking sector (see text table),** including: (i) adoption of a corporate governance framework; (ii) increasing the regulatory capital adequacy ratio and the minimum capital requirements;<sup>8</sup> and (iii) employing regulatory directives under the supervision of the Compliance Committee to ensure that actions are taken to correct identified deficiencies.

Financial soundness indicators

	Dec '05	Dec '06 <sup>1</sup>	Dec '07 <sup>2</sup>	Sep '08
	(L.\$ millions)			
Gross Assets	7,304	9,211	13,591	18,444
Net Assets	6,844	8,438	12,850	17,565
Net Loans	1,759	2,283	3,592	5,253
Deposits	4,923	6,408	9,303	12,495
Reported Capital Net of Provisions	1,108	1,205	1,882	2,289
Reported Net Capitalization (SSR 32)	16.2	14.3	14.6	13.0
Regulatory Capital Ratio (SSR 65)	2.3	12.3	28.4	23.3
Classified Loans to Total Loans (SSR 66)	56.6	45.2	20.4	20.0
Non-performing Loans to Total Loans (SSR 67)	15.5	42.4	16.4	13.9
Provisions to Classified Loans Net of Interest in Suspense (SSR 69)	26.6	50.2	77.4	64.8
Provisions to Non-performing Loans Net of Interest in Suspense (SSR 68)	97.0	53.9	97.1	94.2
Returns on Assets (SSR 70)	0.5	-0.5	0.6	1.1
Returns on Equity (SSR71)	3.2	-4.1	4.5	8.5
Non-interest Income to Total Revenue (SSR 73)	81.4	75.8	71.9	65.9
Net Interest Margin over Average Assets (SSR 72)	1.8	8.3	9.7	4.7
Liquid Assets to Net Assets (SSR 76)	17.8	60.0	61.1	57.5
Net Loans to Deposits	35.7	35.6	38.6	42.0

<sup>1</sup> Adjustments to data from December '06 relates to a reclassification of one bank's investment in real estate (which was previously deducted from the bank's assets), and in another bank's connected lending.

<sup>2</sup> Improvement in prudential indicators on account of restructuring of government loans from LBDI, replacing loans with 10-year bonds.

Source: Central Bank of Liberia (CBL).

**26. The authorities indicated their intention to further strengthen the banking sector.** Measures have been implemented to improve supervision of the banking system, including a requirement for semiannual on-site examinations of all operating banks (an end-September performance criterion) and a comprehensive system for off-site examinations. The authorities agreed with staff that these arrangements, together with the licensing of another four commercial banks, would impose significant demands on the Banking Supervision Department's limited capacity, making training of both current and new staff a priority. Staff emphasized that the CBL should enforce all current banking supervision regulations and take firm steps to ensure full compliance, including the increase in capital requirements scheduled for 2009 and beyond. Finally, staff and the authorities agreed that given the supervisory constraints and global financial market uncertainty, the CBL should avoid issuing new banking licenses in the near future. They also agreed that growth in private sector credit would require close supervision of bank credit risk management and loan classification

<sup>8</sup> The CBL Board of Governors increased the required minimum capital from US\$2.0 million to US\$6.0 million by December 2008, to US\$8.0 million by December 2009, and to US\$10.0 million by December 2010; the capital adequacy ratio has been raised from 8 percent to 10 percent by end-December 2008.

policies.<sup>9</sup> Staff also recommended that the authorities seek funding and technical assistance for development of a fast-track commercial court, and for development of the payments system, which remains rudimentary.

27. **Staff welcomed the authorities' focus on strengthening the institutional environment to prevent money laundering.** Under current legislation all licensed banks are required to have in place adequate know-your-customer policies, and to report suspicious transactions to the CBL. The authorities have requested assistance from the Inter-Governmental Action Group Against Money Laundering in West Africa to review the current anti-money-laundering/combating financing of terrorism (AML/CFT) legislation to ensure that it is consistent with international best practice. They would welcome Fund review of the draft legislation.

28. **Progress has been made in strengthening internal financial controls at the CBL.** The CBL received an adverse opinion from its external auditors on the 2007 accounts due to non-compliance with international financial reporting standards, and the Fund's 2007 interim safeguards assessment identified serious weaknesses. An update safeguards assessment conducted in early 2008 found that while the CBL had largely addressed the measures to increase transparency recommended by the 2007 interim assessment, significant risks exist in the control framework of the Bank. Of particular concern was a delay in assuming co-signing authority for CBL financial matters by the Fund-supported Special Advisor and weak internal audit capacity, including the lack of effective oversight of CBL financial reporting, audit and control systems by the Audit Committee. A special external audit conducted in August 2008 (one of the main safeguards recommendations), indicated that the monetary data submitted by the CBL are accurate and comply with the definitions in the Technical Memorandum of Understanding, and that progress has been made on improving aspects of the general control environment, including the assumption of co-signing authority by the Special Advisor. Staff welcomed the authorities' commitment to complete by February 2009 a second special external audit covering the period through December 2008. The CBL had also made progress in implementing a number of other major recommendations, including adoption of investment guidelines and segregating the duties of the Banking and Financial Departments regarding placement of CBL financial resources. Staff welcomed progress to date, and urged the CBL to further strengthen internal audit and controls, including appointing an expert to conduct an external assessment of the internal audit function, developing an action plan to implement recommended improvements, and adopting an internal audit charter.

29. **The staff welcomed the CBL's commitment to a cash-based balanced budget for 2009.** Staff emphasized the importance of prudent assumptions about the average level of

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<sup>9</sup> Private sector credit growth averaged about 80 percent in the first three quarters of 2008, although year-on-year growth slowed a little to 58 percent in September—on average, around 90 percent of loans are denominated in U.S. dollars.

government deposits at the CBL given that the government budget for FY2008/09 targets a draw-down of deposits to finance expenditures.<sup>10</sup> On expenditures, the authorities agreed that future capital expenditures on the CBL's building, completion of which was interrupted by the civil war, should be prioritized in terms of available resources and other important CBL functions.

### C. Other Structural Reforms

30. **The staff welcomed progress with establishing the independent Liberia Anti-Corruption Commission (LACC).** The act, approved in August 2008, gives the LACC independent investigative and prosecutorial powers and mandates that it lead implementation of the government's anticorruption strategy. Staff welcomed appointment of the commissioners, but emphasized the importance of finalizing preparations for making the commission operational, especially providing a budget for the remainder of FY2008/09 and appointing the necessary personnel.<sup>11</sup> Staff and the authorities agreed on the need to finalize the LACC's medium-term work program, inclusive of those elements of the national anticorruption strategy directly under the Commission's control. Staff noted that elements of the strategy outside the LACC's direct control would require close coordination with other government institutions, such as the General Auditing Commission (GAC).

31. **The GAC completed some external audits of public sector institutions in FY2007/08, including a number of state-owned enterprises and the Ministry of Finance.** It is commendable that external audits have recommenced after a long hiatus, but staff noted the importance of focusing scarce resources on the audits that are required for Liberia to reach the HIPC Initiative completion point; in this regard, successive audits of the Ministries of Education; Finance; Health; Lands, Mines and Energy; and Public Works would need to be completed (completion of the external audit of the government's accounts for fiscal year 2007/08 is a performance criterion under the program).

### D. Statistical Issues and Fund Technical Assistance

32. **Severe data deficiencies hamper surveillance and monitoring of PRSP implementation.** Fund technical assistance has been provided in a number of areas and the staff welcomed progress over the past three years in improving fiscal, monetary, price, and balance of payments data. Staff encouraged the authorities to continue implementing recommendations to maintain momentum in improving data availability and quality (completing balance of payments data for 2008 is a program benchmark). The recently

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<sup>10</sup> In 2008, unremunerated government deposits at the CBL, placed by the CBL in off-shore accounts, accounted for around 37 percent of interest income.

<sup>11</sup> The 2008/09 budget provides US\$150,000 for the LACC against an estimated annual requirement of US\$1.2 million.

finalized National Statistical Development Strategy (NSDS) envisages the resumption of production of national accounts data and a household income and expenditure survey that would improve consumer price statistics (completion of the national accounts establishment survey is a performance criterion, see MEFP, ¶37).

**33. The authorities have been very receptive to technical assistance from the Fund (Informational Annex, Appendix I), and Liberia’s development partners.** The Fund has provided extensive technical assistance over the past three years in the areas of statistics and fiscal, monetary and financial policies. Staff agreed with the authorities that continued Fund support would be important to further strengthen institutional capacity.

#### **E. Moving toward the HIPC Completion Point**

**34. Liberia has made progress toward achieving a number of completion point triggers:** (i) Liberia’s full PRSP was finalized in April 2008; (ii) performance under the PRGF-supported program has been satisfactory; and (iii) a revised investment incentive code to ban tax exemptions other than those specified in the Liberia Revenue Code has been finalized, and is expected to be submitted for legislative approval in early 2009. The authorities have also: (i) submitted a comprehensive PFM law for legislative approval; (ii) adopted a debt management strategy; (iii) passed legislation to establish an independent anticorruption commission; and (iv) made progress in public reporting of extractive industry financial flows consistent with EITI criteria. Implementation of these triggers for at least twelve months is a requirement for reaching the completion point, and the authorities affirmed their continuing commitment to achieving these completion point triggers expeditiously. Staff considers that the completion point could be reached in 2010, as had been assumed in the decision point debt sustainability analysis.

#### **F. Financing Assurances**

**35. The program is fully financed through 2009 through existing debt rescheduling agreements.** Following clearance of arrears to the World Bank and African Development Bank in December 2007 and the IMF in March 2008, and a rescheduling agreement with the Paris Club in April 2008, the authorities have continued seeking agreement with other multilateral, official and private creditors consistent with the HIPC Initiative. The authorities have continued discussions with private creditors, and expect that an agreement under the World Bank’s Debt Reduction Facility could be reached in early 2009. Discussions have also continued with non-Paris Club and other multilateral creditors—in this regard China has announced its intention to forgive all outstanding claims, while IFAD, the Saudi Fund, OFID, and BADEA have agreed to grant Liberia debt relief on terms fully consistent with the HIPC initiative. Following cabinet approval of a debt management strategy, the authorities have strengthened efforts to expand capacity of the debt management unit, including establishing a mechanism for securing loan documents. Additionally, the authorities are seeking donor support to acquire a debt management software package (a program benchmark).



### G. Program Monitoring and Risks

36. **The second year of the program will cover the period through December 2009.** The program will be monitored on the basis of biannual quantitative performance criteria for June 30 and December 31, 2009, and indicative targets for March 31 and September 30, 2009 (MEFP, Table 3). Structural conditionality is consistent with the government's PRSP (MEFP, Table 4). Staff and the authorities agreed to eliminate the program conditionality related to the ceiling on CBL expenditure in order to allow the CBL to undertake important capital expenditures if income performance is better than projected.

37. **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. Furthermore, continued donor support would be important to support achieving a number of program objectives. Additionally, current global economic developments pose a risk for Liberia's short-term economic prospects (see ¶10).

### H. Outreach

38. **Staff met with key representatives of the legislature, civil society, donors, and the private sector.** Members of civil society were concerned about the slow pace of translating improvements in growth into improvement in the welfare of individuals and about potential weaknesses in the anticorruption framework. They noted the need for closer dialogue with the government on these and other policy issues and considered the participatory PRSP to be a step in the right direction. Cooperation between the executive and legislative branches of government remains important for achieving program objectives. Staff met with key legislative representatives to discuss progress on the program. They noted the recent passage of the legislation on the Bureau of the Budget and on governance and also stressed the importance of close dialogue with the executive branch. Meeting with members of the donor community, the staff emphasized the need to ensure that their support is aligned with the PRSP, particularly since most donor support is not yet going through the government budget, and the need for continued financial support to assist the government in its response to higher commodity prices.

### V. STAFF APPRAISAL

39. **The staff welcome the prudent fiscal and monetary policies being adopted in Liberia.** In the past two years the authorities have limited government spending to available cash resources and kept the exchange rate generally stable. Growth has been robust, foreign investment has increased, and core inflation has remained under control.

40. **The authorities' response to higher food and fuel prices was appropriate.** Their comprehensive food security strategy aims to mitigate the impact of domestic rice price increases, ensure domestic supply and access to food for vulnerable households through safety nets, and promote domestic production. Looking forward the authorities should

continue to focus on securing donor support to finance the strategy in view of limited public resources.

41. **Performance on the PRGF-supported program through June 2008 was satisfactory, and the program remains on track.** In particular the staff commends the Executive and Legislature for their continued commitment to strengthening PFM, improving governance and establishing an institutional framework focused on combating corruption. Policies for the second year of the program are appropriately aimed at continued progress in strengthening PFM, monetary and financial sector policies, and governance, and improving data availability and quality. Continued donor support will be important for reaching program objectives.

42. **The staff considers that economic prospects for 2009 remain favorable.** Real growth is projected to rise strongly with the expected resumption of logging and iron ore mining operations, inflation is projected to decline to single digits, and the current account deficit is likely to narrow. However, a sharper-than-projected slow-down in global growth, or stronger decline in world commodity prices, could reduce demand for Liberia's key exports, or delay investment activity in these sectors, more than projected.

43. **Revenue projections in the 2008/09 (July-June) budget are subject to downside risks, particularly stemming from assumed one-off nontax revenue sources.** The authorities should put in place an effective cash flow management system as soon as possible and, in the meantime, identify potential expenditure reductions in case revenue shortfalls materialize.

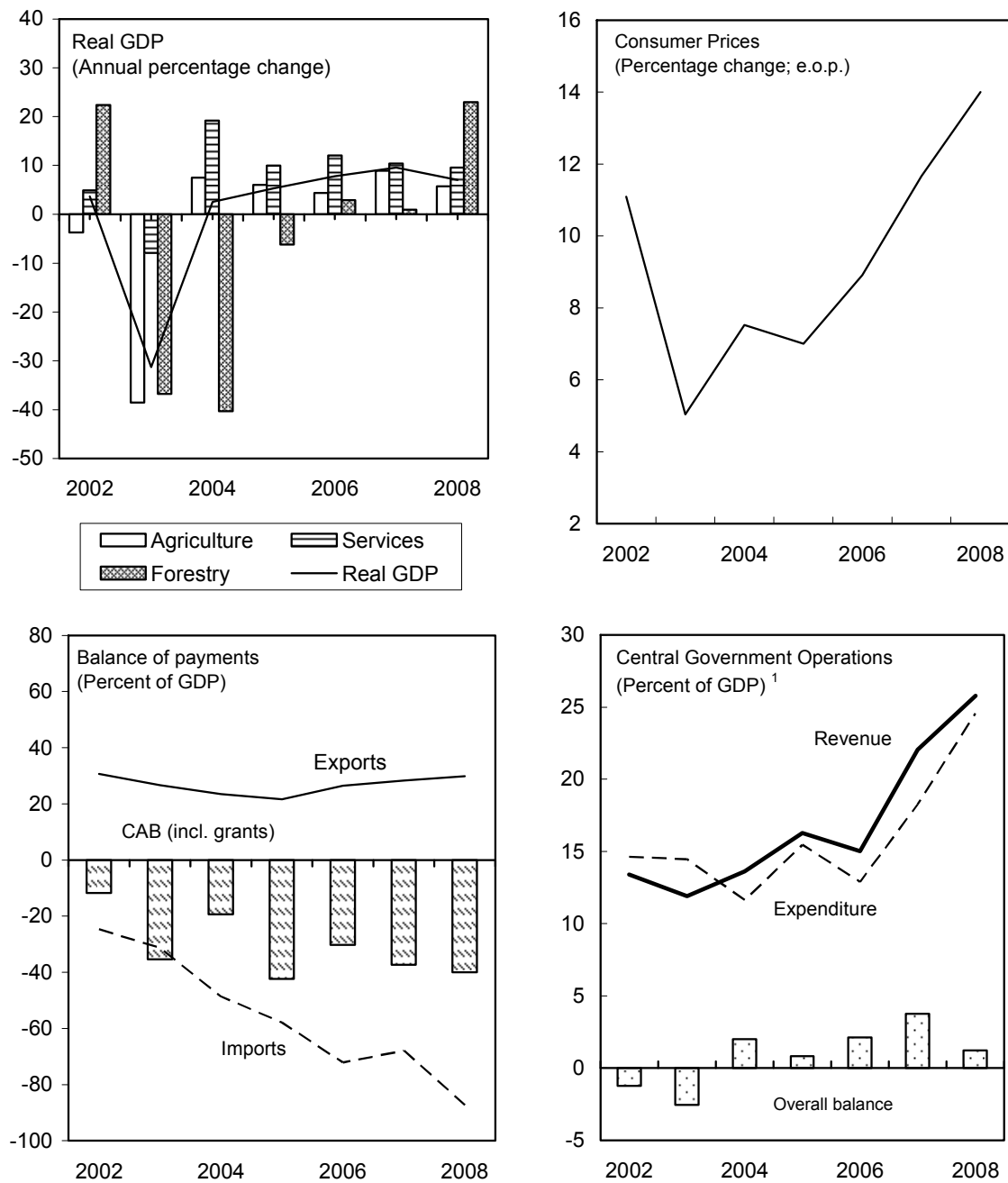
44. **The staff does not consider the Liberian dollar to be either over- or undervalued.** However, a marked appreciation of the U.S. dollar in the last quarter of 2008 is likely to contribute to slower growth through its impact on Liberia's main exports. The main factors affecting Liberia's international competitiveness are inadequate infrastructure and an institutional environment that is not conducive to private sector development. Continued donor support for rebuilding infrastructure will be critical.

45. **The staff consider that the high level of dollarization has contributed positively to the stability of the economy in Liberia's postconflict environment.** While the authorities would like to encourage greater use of the Liberian dollar, staff urge that policy initiatives to strengthen the demand for Liberian dollars should be market-based and focus on strengthening policy credibility and developing the financial market.

46. **Staff agrees that the current monetary policy framework, given a high dollarization, has contributed to maintenance of relative price stability.** However, the staff emphasized that the CBL should not attempt to target a specific level for the exchange rate, and in particular not to resist persistent downward pressure on the exchange rate due to exogenous shocks.

47. **Staff support the waiver of nonobservance for the structural performance criterion on the adoption of legislation to merge the Bureau of the Budget into the Ministry of Finance by end-June 2008.** Legislation to this effect was approved in September, and since then the authorities have made strong progress in effecting the merger. Staff also support the request for modification of the quantitative performance criteria for end-December 2008 relating to the floors on revenue collection and the fiscal balance, and for the CBL, the floor on the budget balance and the ceiling on expenditure. Based on the performance to date, staff recommends completion of the first review under the PRGF-supported arrangement.

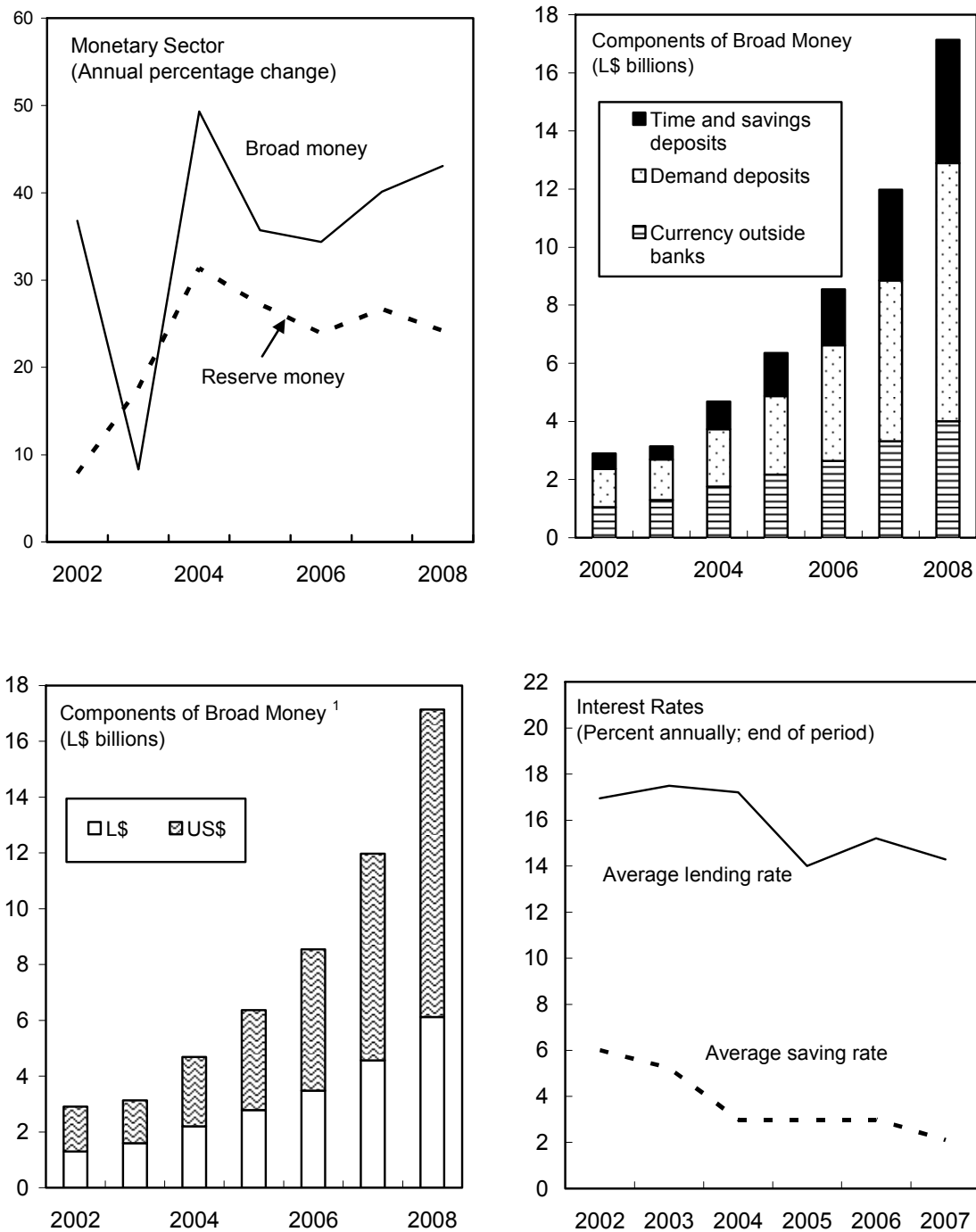
Figure 1. Liberia: Selected Economic Indicators, 2002-08



Sources: Liberian authorities; IMF staff estimates and projections.

<sup>1</sup> Fiscal year (July-June).

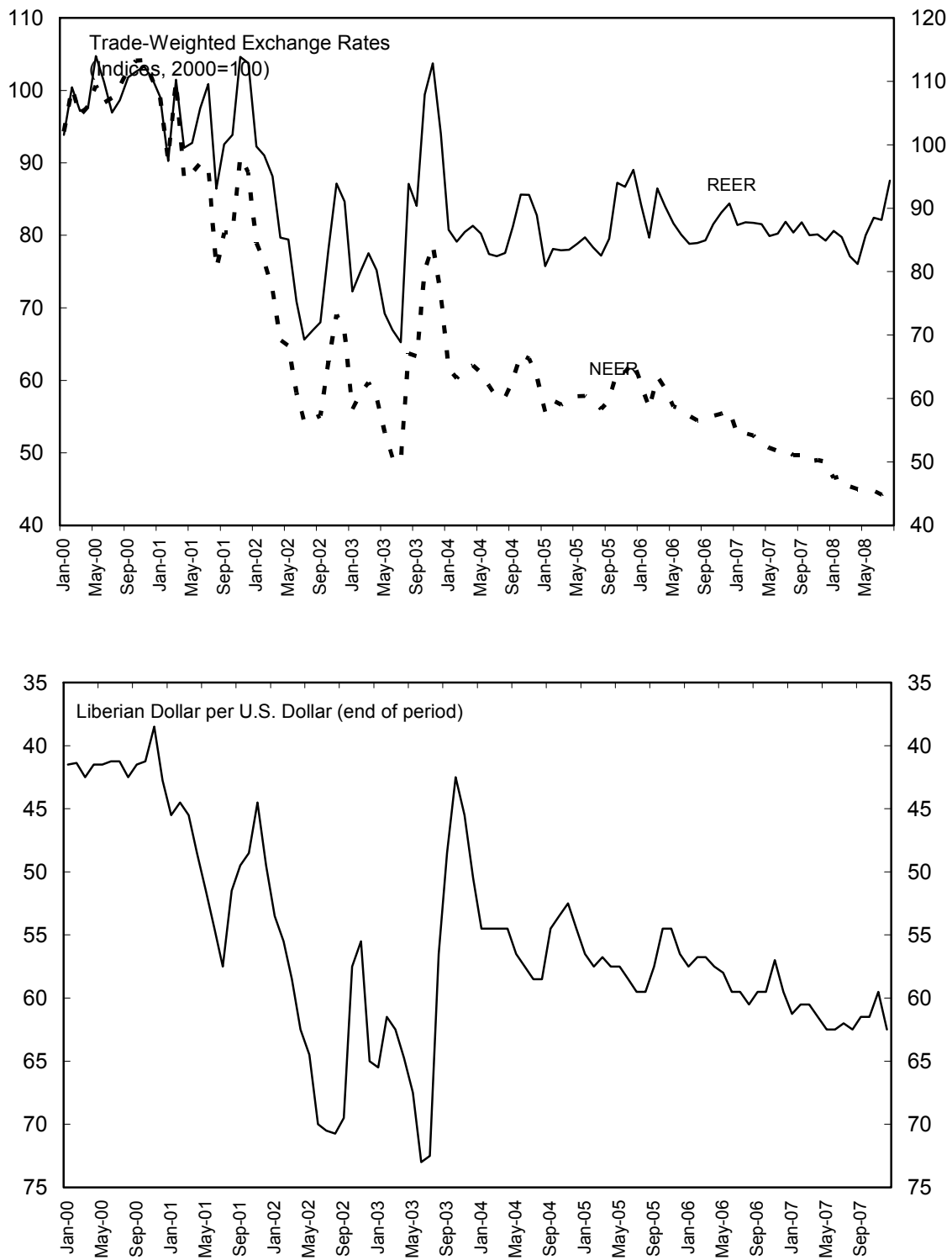
Figure 1. Liberia: Selected Economic Indicators, 2001-08 (concluded)



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

<sup>1</sup> Percent of total money supply.

Figure 2. Liberia: Exchange Rate Developments, January 2000-October 2008



Sources: Liberian authorities; IMF staff estimates and projections.

Table 1. Liberia: Selected Economic and Financial Indicators, 2007–13

	2007	2008		2009		2010		2011	2012	2013
	Est.	Prog. <sup>1</sup>	Proj.	Prog. <sup>1</sup>	Proj.	Prog. <sup>1</sup>	Proj.	Proj.	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)										
National income and prices										
Real GDP	9.5	9.6	7.1	10.3	12.7	14.8	12.9	13.2	15.5	7.5
Consumer prices (annual average) <sup>2</sup>	11.4	10.6	17.9	9.0	2.6	8.0	5.0	5.0	5.0	5.0
Consumer prices (end of period) <sup>2</sup>	11.7	9.5	14.0	8.5	5.0	7.5	5.0	5.0	5.0	5.0
Nominal GDP (US\$ millions)	734.6	818.2	870.9	916.8	997.5	1,082.6	1,131.9	1,345.8	1,650.7	1,823.6
GDP deflator (US\$)	9.7	2.0	10.7	1.6	1.6	2.9	0.5	5.1	6.2	2.8
Real GDP per capita (constant 1992 US\$) <sup>3</sup>	126.4	131.7	128.8	138.6	138.4	152.5	149.8	163.6	183.0	191.1
External sector (US\$ terms)										
Exports of goods, f.o.b.	28.6	46.8	24.9	49.3	34.9	52.7	38.6	66.9	54.3	8.1
Imports of goods, f.o.b.	13.0	73.2	52.5	16.5	26.6	11.3	14.8	22.5	18.6	2.7
Terms of trade (deterioration -)	-10.7	-4.0	-2.6	-2.5	10.3	7.2	8.5	8.0	1.9	1.4
Official exchange rate (L\$/US\$; end of period)	62.5	...	...	...	...	...	...	...	...	...
Nominal effective exchange rate (end of period)	-0.5	...	...	...	...	...	...	...	...	...
Real effective exchange rate (end of period)	-6.1	...	...	...	...	...	...	...	...	...
Central government operations <sup>4,5</sup>										
Total revenue and grants	73.3	25.2	39.5	19.4	20.7	23.1	1,625.4	-92.1	23.6	18.8
Of which: total revenue	73.6	26.5	36.7	14.0	24.4	23.3	16.3	9.3	23.8	19.0
Total expenditure and net lending	67.4	53.4	60.2	68.8	84.1	15.7	9.8	-15.0	30.7	19.4
Of which: current expenditure	58.4	57.6	62.9	77.5	88.3	8.7	10.3	-19.0	22.8	18.8
capital expenditure	164.1	26.7	43.4	-0.6	53.3	114.7	4.9	21.7	79.9	22.1
(Annual percentage change; beginning-period stock of money, unless otherwise indicated)										
Money and banking										
Net foreign assets	-24.2	-39.5	24.3	-17.4	-1.8	395.2	298.7	13.6	15.6	8.5
Net domestic assets	64.3	62.6	18.8	37.9	18.5	-370.2	-281.6	8.2	9.3	5.0
Net claims on government	74.4	64.1	9.3	39.7	18.6	-370.5	-281.4	4.9	3.6	3.5
Claims on nongovernment	16.4	1.5	1.1	7.4	5.5	9.3	4.8	7.0	8.3	4.4
Other items net	-26.5	-3.0	8.4	-9.2	-5.5	-9.0	-5.1	-3.8	-2.6	-2.8
Broad money (M2) <sup>6</sup>	40.1	23.2	43.1	20.4	16.7	25.0	17.2	21.7	25.0	13.6
Velocity (GDP relative to broad money)	3.8	3.8	3.2	3.8	3.2	3.8	3.2	3.2	3.2	3.2
Reserve money	26.7	20.6	24.2	21.4	15.3	24.5	19.1	21.4	23.9	13.0
Broad money (stocks, L\$ billions)	12.0	14.8	17.1	17.8	20.0	22.2	23.4	28.5	35.7	40.5
L\$ component	4.6	5.8	6.1	7.0	7.1	8.7	8.4	10.3	12.8	14.5
US\$ component	7.4	9.0	11.0	10.8	12.9	13.5	15.0	18.3	22.9	26.0
(Percent of GDP)										
Central government operations <sup>4,5</sup>										
Total revenue and grants	22.0	24.0	25.8	25.6	26.7	27.3	404.8	27.3	27.9	28.6
Of which: total revenue	21.8	24.0	25.0	24.4	26.7	26.1	27.3	25.6	26.2	26.9
Total expenditure and net lending	18.3	24.3	24.6	36.7	38.8	36.8	37.4	27.3	29.5	30.4
Of which: current expenditure	15.8	21.6	21.6	34.3	34.9	32.3	33.8	23.5	23.9	24.5
capital expenditure	2.5	2.7	3.0	2.4	3.9	4.5	3.6	3.8	5.6	5.9
Overall fiscal balance	3.8	-0.4	1.2	-11.2	-12.1	-9.6	367.4	0.0	-1.6	-1.8
External sector										
Current account balance, including grants (deficit, -)	-37.2	-64.6	-40.0	-63.4	-35.5	-41.3	-26.8	-19.0	-18.5	-17.5
Of which: public interest payments due	-19.5	-11.5	-10.7	-11.3	-10.4	-9.7	-9.3	-1.0	-0.3	-0.3
Current account balance, excluding grants (deficit, -)	-186.2	-93.6	-160.6	-86.8	-147.6	-61.9	-118.4	-95.6	-78.2	-67.6
Trade balance (deficit, -)	-39.5	-62.4	-57.4	-53.0	-61.3	-31.0	-54.6	-40.3	-21.4	-16.2
Exports, f.o.b.	28.3	40.7	29.8	54.3	35.2	70.2	42.9	60.3	75.8	74.2
Imports, f.o.b.	-67.9	-103.2	-87.3	-107.3	-96.4	-101.1	-97.6	76.6	59.7	50.1
Public sector external debt outstanding (total)	571.8	576.0	463.4	513.2	414.4	9.5	11.7	8.1	7.7	7.3
(Millions of US\$, unless otherwise indicated)										
Current account balance including grants (deficit, -)	-273.5	-528.9	-348.0	-580.8	-353.9	-447.0	-302.9	-255.7	-305.4	-319.7
Trade balance (deficit, -)	-290.5	-510.9	-500.1	-486.2	-611.3	-335.1	-618.4	-542.0	-353.2	-295.9
Gross official reserves	85.3	91.6	96.4	119.8	114.1	147.5	143.1	168.2	192.7	206.6
(months of imports of goods and services)	0.7	1.0	0.7	1.1	0.7	1.2	0.8	0.8	0.8	0.9

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

<sup>1</sup> Country Report No. 08/108, February 28, 2008<sup>2</sup> The Monrovia CPI was replaced in February 2007 with a more comprehensive Harmonized CPI.<sup>3</sup> 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.<sup>4</sup> Fiscal year basis (July-June). Commitment basis starting in 2006/07.<sup>5</sup> Reflects projected debt relief under the HIPC Initiative.<sup>6</sup> Defined as Liberian currency outside banks plus demand, time, and savings deposits in Liberian and U.S. dollars.

Table 2. Liberia: Balance of Payments, 2007-13

	2007	2008	2009	2010	2011	2012	2013
	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Millions of US\$, unless otherwise indicated)							
Trade balance	-290	-500	-611	-618	-542	-353	-296
Exports, f.o.b.	208	260	351	486	811	1,252	1,353
Of which: rubber	184	221	135	128	138	150	160
timber	0	0	58	97	116	177	190
iron ore	0	2	76	132	343	706	779
Imports, f.o.b.	-499	-760	-962	-1,105	-1,353	-1,605	-1,649
Of which: petroleum	-85	-135	-104	-129	-154	-185	-201
rice	-48	-120	-69	-68	-68	-67	-65
Services (net)	-903	-777	-740	-610	-652	-777	-760
Of which: UNMIL services <sup>1</sup>	-535	-493	-478	-455	-418	-342	-266
Income (net)	-179	-195	-209	-200	-182	-251	-268
Of which: public interest payments due <sup>2</sup>	-143	-93	-103	-105	-14	-6	-5
o/w IMF	-16	-16	-26	-27	-5	0	0
Current transfers (net)	1,099	1,124	1,207	1,126	1,120	1,076	1,005
Donor transfers (net)	1,094	1,051	1,119	1,037	1,031	985	913
Of which: UNMIL transfers <sup>3</sup>	705	650	630	600	550	450	350
Private transfers (net)	45	73	88	89	90	91	92
Current account balance	-274	-348	-354	-303	-256	-305	-320
Current account balance, excluding grants	-1,368	-1,399	-1,473	-1,340	-1,286	-1,290	-1,233
Capital and financial account (net)	117	36	252	1,108	288	350	346
Capital account (HIPC debt relief) <sup>4</sup>	1	3	4	4,112	5	0	0
Financial account	116	33	248	-3,004	283	350	346
Foreign direct investment (net) <sup>5</sup>	127	200	378	351	440	470	401
Portfolio investment (net)	0	0	0	0	0	0	0
Other investment (net)	-11	-167	-130	-3,355	-157	-120	-55
Official financing: Medium & long -Term (net)	-5	-14	-10	-3,280	23	29	32
Disbursements	0	0	0	0	27	33	36
Amortization <sup>6</sup>	-5	-14	-10	-3,280	-4	-4	-4
Private financing (net) <sup>7</sup>	-6	-154	-120	-76	-179	-149	-87
Statistical Discrepancy	7	0	0	1	1	0	0
Overall balance	-156	-312	-102	805	32	44	26
Financing	163	312	102	-804	-32	-44	-26
Change in Net Foreign Assets (increase -)	17	-45	-6	-910	-32	-44	-26
Of which: net use of Fund credit and Loans <sup>8</sup>	0	22	17	-820	2	0	0
Disbursements)	0	882	17	14	7	0	0
Repayments	0	860	0	834	5	0	0
Exceptional Financing	146	357	108	106	0	0	0
Debt forgiveness	665	254	0	0	0	0	0
Change in arrears <sup>8</sup>	-665	-3,947	0	0	0	0	0
Debt rescheduling plus HIPC interim debt relief <sup>9</sup>	146	4,050	108	106	0	0	0
<b>Memorandum items:</b>							
Current account balance (percent of GDP):							
Including grants	-37.2	-40.0	-35.5	-26.8	-19.0	-18.5	-17.5
Excluding grants	-186.2	-160.6	-147.6	-118.4	-95.6	-78.2	-67.6
Excluding grants and public interest payments due	-166.7	-149.9	-137.3	-109.1	-94.5	-77.8	-67.3
Trade balance (percent of GDP)	-39.5	-57.4	-61.3	-54.6	-40.3	-21.4	-16.2
Donor transfers (net) (percent of GDP)	148.9	120.7	112.1	91.6	76.6	59.7	50.1
Public sector external debt (medium- and long-term)							
Debt outstanding, including arrears	4,201	4,036	4,134	132	140	150	160
(percent of exports of goods and services)	1,463	1,125	854	20	11	10	9
(percent of GDP)	572	463	414	12	8	8	7
Debt service charges	1.2	0.9	1.4	0.7	8.7	10.0	9.7
(percent of GDP)	0.2	0.1	0.1	0.1	0.2	0.2	0.2
Terms of trade (1997=100)	189.9	184.9	203.9	221.3	239.0	243.5	247.0
Gross official reserves	85	96	114	143	168	193	207
Gross official reserves (months of imports of goods and services)	0.7	0.7	0.7	0.8	0.8	0.8	0.9
Gross official reserves (months of nondonor imports)	1.3	1.0	1.0	1.1	1.1	1.0	1.1
GDP at current prices	735	871	998	1,132	1,346	1,651	1,824

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

<sup>1</sup> The cost is net of estimated value of goods and services purchased by UNMIL (and its staff) in Liberia.

<sup>2</sup> 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.

<sup>3</sup> UNMIL operations are projected to decline in the years ahead, thus impacting negatively on services receipts in the current account.

<sup>4</sup> Data in 2007-2010 donor grants for debt relief. Amount in 2011 reflects IMF charges accrued Nov.-Dec 2010 but due February 2011.

<sup>5</sup> Starting in 2007, reflects large investments in mining and forestry.

<sup>6</sup> Assumes full delivery of debt relief on Completion Point in December 2010.

<sup>7</sup> Includes short-term trade credits and private sector operating balances abroad

<sup>8</sup> Includes debt forgiveness from WB and AfDB in Dec. 2007 ( \$665 m); and Paris Club creditors in April, 2008 (\$254 m).

<sup>9</sup> Debt payments falling due to bilateral, multilateral and commercial creditors are deferred in the interim period.



Table 3a. Liberia: Summary of Central Government Operations (Commitment Basis), 2007/08-2012/13

	2007/08		2008/09		2009/10		2010/11		2011/12	2012/13
	Jul.-Jun. budget (incl. suppl)	actual	budget	proj.	prog.	proj.	prog.	proj.	proj.	proj.
(Millions of US\$)										
Total revenue and grants	195.7	206.9	249.8	249.2	272.9	4,310.3	329.8	338.4	418.3	497.1
Total revenue	190.1	200.8	249.8	230.3	261.1	290.6	315.9	317.6	393.2	467.9
Tax revenue	151.5	168.8	173.4	184.0	222.2	218.6	260.9	256.0	318.7	381.4
Taxes on international trade and transactions	72.1	79.1	76.5	88.6	111.1	109.8	132.3	129.6	161.4	193.1
Taxes on income	48.6	52.6	54.5	54.5	66.0	62.1	77.6	72.1	89.8	107.5
Taxes on goods and services	26.9	34.9	36.9	36.9	41.9	42.0	47.4	48.8	60.8	72.8
Of which: maritime revenues	13.0	14.0	16.0	16.0	17.2	18.3	18.9	21.2	26.4	31.6
Other	3.8	2.2	5.5	4.1	3.1	4.6	3.7	5.4	6.7	8.0
Of which: overdue tax collection	2.6	1.0	3.8	2.3	0.0	2.6	0.0	3.1	0.0	0.0
Nontax revenue	38.6	32.0	76.4	46.2	38.9	72.0	55.0	61.6	74.5	86.5
Of which:										
stumpage fees and land rental	2.2	0.8	6.1	2.8	11.1	9.2	17.1	12.7	15.4	17.9
income from government properties	1.1	0.2	11.1	5.3	1.5	10.2	0.0	9.5	11.5	13.3
income and transfer from SOEs	3.0	1.7	4.8	4.8	1.0	5.1	1.0	5.5	6.6	7.7
GSM fees	5.6	0.0	11.4	11.4	8.6	7.1	8.6	5.7	6.9	8.0
iron ore comm. dev. Funds	4.0	7.6	12.0	6.0	3.0	9.0	3.0	9.0	10.9	12.6
Arcelor Mittal royalty	0.0	0.0	0.0	0.0	7.5	0.0	16.2	8.9	10.7	12.5
iron ore one-time payments	15.0	15.2	22.5	7.5	0.0	22.5	0.0	0.0	0.0	0.0
Grants	5.6	6.1	0.0	19.0	11.8	4,019.7	13.9	20.8	25.1	29.2
Of which: capital grants related to MDRI and HIPC assistance						4,001.8				
Total expenditure and net lending	198.7	197.1	362.7	362.2	368.4	398.3	444.1	338.4	442.1	528.0
Current expenditure	174.9	173.2	326.2	325.7	323.4	359.9	372.7	291.6	358.1	425.4
Wages and salaries	70.5	68.0	95.2	95.2	87.4	103.2	105.0	116.1	133.3	147.0
Goods and services	62.2	61.2	95.7	95.4	84.9	111.3	108.6	127.9	173.4	223.3
Interest on debt	7.5	7.5	99.5	99.5	115.0	107.9	121.1	8.3	10.0	11.7
External <sup>1</sup>	3.9	1.1	98.3	98.3	111.3	104.1	117.3	4.4	4.8	5.2
Domestic <sup>2</sup>	3.6	6.4	1.3	1.3	3.6	3.7	3.8	3.9	5.2	6.5
Subsidies, transfers, and net lending	34.6	36.6	35.7	35.6	36.1	37.5	37.9	39.4	41.4	43.4
Capital expenditure	23.8	23.9	36.6	36.5	45.0	38.4	71.5	46.7	84.1	102.6
Of which:										
domestically financed	23.8	23.9	36.6	36.5	45.0	38.4	59.7	34.3	54.1	67.9
externally financed	0.0	0.0	0.0	0.0	0.0	0.0	11.8	12.4	30.0	34.7
Overall surplus or deficit <sup>3</sup>	-3.0	9.8	-112.9	-112.9	-95.5	-3912.0	-114.4	0.0	-23.9	-30.9
Total Financing	3.0	-9.8	112.9	112.9	95.5	-3912.0	114.4	0.0	23.9	30.9
Foreign borrowing (net)	0.0	0.0	96.6	96.6	107.4	-3,898.7	122.9	8.1	25.6	30.4
Project loans	0.0	0.0	0.0	0.0	0.0	0.0	11.8	12.4	30.0	34.7
Amortization (-)	0.0	0.0	-11.7	-11.7	0.0	-4,062.5	0.0	-4.3	-4.3	-4.4
Exceptional financing	0.0	0.0	108.3	108.3	107.4	163.9	111.1	0.0	0.0	0.0
Payment of external arrears (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: Payment to IFIs (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC debt relief	n.a.	n.a.	57.7	57.7	54.6	54.6	94.6	0.0	0.0	0.0
Other debt relief and rescheduling <sup>4</sup>	n.a.	n.a.	50.5	50.5	52.8	109.3	16.5	0.0	0.0	0.0
Domestic borrowing (net)	3.0	-9.8	16.4	16.4	-11.9	-13.3	-8.5	-8.1	-1.8	0.5
Nonmonetary sector	-2.3	0.0	-4.0	-4.0	-0.2	-0.2	5.8	6.1	15.0	17.4
Exceptional financing	5.2	-9.8	20.4	20.4	-11.7	-13.1	-14.3	-14.2	-16.8	-16.8
Payment of domestic arrears (-)	-8.5	-6.5	0.0	0.0	-2.5	-2.5	-2.5	-2.5	-2.5	0.0
Accumulation in domestic debt trust fund (-)	0.0	0.0	0.0	0.0	-9.2	-10.6	-11.8	-11.7	-14.3	-16.8
Accumulation in GOL balance at CBL (-)	13.7	-3.3	20.4	20.4	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:										
Stock of domestic debt (percent of GDP)	35.5	35.5	29.7	29.7	27.5	26.1	25.0	24.0	21.0	19.1
Spending on community development funds	7.0	3.0	24.1	24.0	6.0	19.0	6.0	19.0	19.0	19.0
(Percent of GDP, unless otherwise indicated)										
Total revenue and grants	25.2	25.8	26.7	26.7	27.3	404.8	28.1	27.3	27.9	28.6
Total revenue	24.5	25.0	26.7	24.6	26.1	27.3	26.9	25.6	26.2	26.9
Grants	0.7	0.8	0.0	2.0	1.2	377.5	1.2	1.7	1.7	1.7
Total revenue (excl. iron ore one-time payments)	22.6	23.1	24.3	23.8	26.1	25.2	26.9	25.6	26.2	26.9
Total expenditure and net lending	25.6	24.6	38.8	38.8	36.8	37.4	37.8	27.3	29.5	30.4
Current expenditure	22.6	21.6	34.9	34.9	32.3	33.8	31.7	23.5	23.9	24.5
Of which: wages and salaries	9.1	8.5	10.2	10.2	8.7	9.7	8.9	9.4	8.9	8.5
Capital expenditure	3.1	3.0	3.9	3.9	4.5	3.6	6.1	3.8	5.6	5.9
Of which: domestically financed	3.1	3.0	3.9	3.9	4.5	3.6	5.1	2.8	3.6	3.9
Overall surplus or deficit (incl. grants)	-0.4	1.2	-12.1	-12.1	-9.6	367.4	-9.7	0.0	-1.6	-1.8
GDP in millions of US dollars	775.2	802.8	934.2	934.2	999.7	1,064.7	1,175.3	1,238.8	1,498.2	1,737.1

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

<sup>1/</sup> Starting in 2008/09, this represents debt service due after traditional debt relief mechanisms until the completion point is reached. Projections assume completion point for the second half of 2009/10.<sup>2/</sup> Contributions to the domestic debt trust fund are reported as a financing item.<sup>3/</sup> Until fiscal year 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 up to 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. Beginning with 2008/09, debt relief in the interim HIPC period is also shown as a financing item. The 2008/09 budget assumes a drawdown of previously accumulated cash balances.<sup>4/</sup> Amount of debt relief expected beyond traditional mechanisms.<sup>5/</sup> Includes pre-NTGL wage and foreign mission arrears.

Table 3b. Liberia: Summary of Central Government Operations (Cash Basis), 2007/08-2012/13

	2007/08	2008/09		2009/10		2010/11		2011/12	2012/13
	Jul.-Jun. budget (incl. suppl)	actual	budget	proj.	prog.	proj.	prog.	proj.	proj.
(Millions of US\$)									
Total revenue and grants	195.7	206.9	249.8	249.2	272.9	308.5	329.8	338.4	418.3
Total revenue	190.1	200.8	249.8	230.3	261.1	290.6	315.9	317.6	393.2
Tax revenue	151.5	168.8	173.4	184.0	222.2	218.6	260.9	256.0	318.7
Taxes on international trade and transactions	72.1	79.1	76.5	88.6	111.1	109.8	132.3	129.6	161.4
Taxes on income	48.6	52.6	54.5	54.5	66.0	62.1	77.6	72.1	89.8
Taxes on goods and services	26.9	34.9	36.9	36.9	41.9	42.0	47.4	48.8	60.8
Of which: maritime revenues	13.0	14.0	16.0	16.0	17.2	18.3	18.9	21.2	26.4
Other	3.8	2.2	5.5	4.1	3.1	4.6	3.7	5.4	6.7
Of which: overdue tax collection	2.6	1.0	3.8	2.3	0.0	2.6	0.0	3.1	0.0
Nontax revenue	38.6	32.0	76.4	46.2	38.9	72.0	55.0	61.6	74.5
Of which:									
stumpage fees and land rental	2.2	0.8	6.1	2.8	11.1	9.2	17.1	12.7	15.4
income from government properties	1.1	0.2	11.1	5.3	1.5	10.2	0.0	9.5	11.5
income and transfer from SOEs	3.0	1.7	4.8	4.8	1.0	5.1	1.0	5.5	6.6
GSM fees	5.6	0.0	11.4	11.4	8.6	7.1	8.6	5.7	6.9
iron ore comm. dev. Funds	4.0	7.6	12.0	6.0	3.0	9.0	3.0	9.0	10.9
Arcelor Mittal royalty	0.0	0.0	0.0	0.0	7.5	0.0	16.2	8.9	10.7
iron ore one-time payments	15.0	15.2	22.5	7.5	0.0	22.5	0.0	0.0	0.0
Grants	5.6	6.1	0.0	19.0	11.8	17.9	13.9	20.8	25.1
Total expenditure and net lending	198.7	197.1	266.0	265.3	261.0	295.0	333.0	338.4	442.1
Current expenditure	174.9	173.2	229.4	228.9	216.0	256.6	261.6	291.6	358.1
Wages and salaries	70.5	68.0	95.2	95.2	87.4	103.2	105.0	116.1	133.3
Goods and services	62.2	61.2	95.7	95.4	84.9	111.3	108.6	127.9	173.4
Interest on debt	7.5	7.5	2.8	2.7	7.5	4.6	10.0	8.3	10.0
External <sup>1</sup>	3.9	1.1	1.5	1.4	3.9	0.9	6.2	4.4	4.8
Domestic <sup>2</sup>	3.6	6.4	1.3	1.3	3.6	3.7	3.8	3.9	5.2
Subsidies, transfers, and net lending	34.6	36.6	35.7	35.6	36.1	37.5	37.9	39.4	41.4
Capital expenditure	23.8	23.9	36.6	36.5	45.0	38.4	71.5	46.7	84.1
Of which:									
domestically financed	23.8	23.9	36.6	36.5	45.0	38.4	59.7	34.3	54.1
externally financed	0.0	0.0	0.0	0.0	0.0	0.0	11.8	12.4	30.0
Overall surplus or deficit <sup>3</sup>	-3.0	9.8	-16.2	-16.1	11.9	13.5	-3.3	0.0	-23.9
Total Financing	3.0	-9.8	16.2	16.1	-11.9	-13.5	3.3	0.0	23.9
Foreign borrowing (net)	0.0	0.0	-0.2	-0.3	0.0	-0.2	11.8	8.1	25.6
Project loans	0.0	0.0	0.0	0.0	0.0	0.0	11.8	12.4	30.0
Amortization (-)	0.0	0.0	-0.2	-0.3	0.0	-0.2	0.0	-4.3	-4.4
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment of external arrears (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: Payment to IFIs (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC debt relief	n.a.	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other debt relief and rescheduling <sup>4</sup>	n.a.	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic borrowing (net)	3.0	-9.8	16.4	16.4	-11.9	-13.3	-8.5	-8.1	-1.8
Nonmonetary sector	-2.3	0.0	-4.0	-4.0	-0.2	-0.2	5.8	6.1	15.0
Exceptional financing	5.2	-9.8	20.4	20.4	-11.7	-13.1	-14.3	-14.2	-16.8
Payment of domestic arrears (-)	-8.5	-6.5	0.0	0.0	-2.5	-2.5	-2.5	-2.5	0.0
Accumulation in domestic debt trust fund (-)	0.0	0.0	0.0	0.0	-9.2	-10.6	-11.8	-11.7	-14.3
Accumulation in GOL balance at CBL (-)	13.7	-3.3	20.4	20.4	0.0	0.0	0.0	0.0	0.0
<i>Memorandum item:</i>									
Stock of domestic debt (percent of GDP)	35.5	35.5	29.7	29.7	27.5	26.1	25.0	24.0	21.0
Spending on community development funds	7.0	3.0	24.1	24.0	6.0	19.0	6.0	19.0	19.0
(Percent of GDP, unless otherwise indicated)									
Total revenue and grants	25.2	25.8	26.7	26.7	27.3	29.0	28.1	27.3	27.9
Total revenue	24.5	25.0	26.7	24.6	26.1	27.3	26.9	25.6	26.2
Grants	0.7	0.8	0.0	2.0	1.2	1.7	1.2	1.7	1.7
Total revenue (excl. iron ore one-time payments)	22.6	23.1	24.3	23.8	26.1	25.2	26.9	25.6	26.2
Total expenditure and net lending	25.6	24.6	28.5	28.4	26.1	27.7	28.3	27.3	29.5
Current expenditure	22.6	21.6	24.6	24.5	21.6	24.1	22.3	23.5	23.9
Of which: wages and salaries	9.1	8.5	10.2	10.2	8.7	9.7	8.9	9.4	8.9
Capital expenditure	3.1	3.0	3.9	3.9	4.5	3.6	6.1	3.8	5.6
Of which: domestically financed	3.1	3.0	3.9	3.9	4.5	3.6	5.1	2.8	3.6
Overall surplus or deficit (incl. grants)	-0.4	1.2	-1.7	-1.7	1.2	1.3	-0.3	0.0	-1.6
GDP in millions of US dollars	775.2	802.8	934.2	934.2	999.7	1,064.7	1,175.3	1,238.8	1,498.2

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

1/ Budget is shown on a cash basis, i.e. debt service payments are shown after all debt relief.

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

3/ Until fiscal year 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 up to 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. The 2008/09 budget assumes a drawdown of previously accumulated cash balances.

4/ Amount of debt relief expected beyond traditional mechanisms.

5/ Includes pre-NTGL wage and foreign mission arrears.

Table 4. Liberia: Monetary Survey, 2007-13

	2006	2007	2008		2009		2010		2011	2012	2013
			Prog	Proj.	Prog	Proj.	Prog	Proj.	Proj.	Proj.	Proj.
(Millions of L\$, unless otherwise indicated)											
Net foreign assets	-45,248	-47,320	-51,958	-44,414	-54,531	-44,725	15,673	15,038	18,219	22,685	25,731
Of which : Fund credit and overdue charges	-50,846	-57,497	-63,964	-57,375	-69,967	-59,977	-3,848	-3,321	-3,829	-3,829	-3,829
CBL's gross foreign reserves	4,281	7,457	8,936	9,446	11,970	11,317	15,456	13,970	16,940	20,392	22,744
assets corresponding to government US\$-denominated deposits at CBL	1,445	3,133	1,698	1,588	1,819	975	1,929	990	1,020	1,050	1,082
assets corresponding to commercial banks' US\$ deposits at CBL	1,531	2,127	2,715	3,325	3,257	3,899	4,079	4,523	5,508	6,898	7,849
CBL's net foreign exchange position	1,293	2,196	3,025	3,187	4,079	3,967	5,545	5,089	6,584	8,615	9,985
Net domestic assets	53,797	59,297	66,711	61,551	72,295	64,732	6,529	8,400	10,315	12,980	14,777
Net domestic credit	69,488	77,249	85,023	78,500	91,970	82,625	27,804	27,304	30,102	33,502	36,304
Net claims on government	65,390	71,746	79,341	72,864	85,194	76,053	19,374	19,764	20,917	21,955	23,193
Of which : Fund credit and overdue charges	50,846	57,497	63,964	57,375	69,967	59,977	3,848	3,321	3,829	3,829	3,829
Claims on private sector	3,080	4,503	5,469	5,422	6,562	6,359	8,218	7,327	8,972	11,334	12,897
Claims on public enterprises	147	132	132	132	132	132	132	132	132	132	132
Claims on nonbank financial institutions	90	81	81	81	81	81	81	81	81	81	81
Claims on nongovernment	4,098	5,503	5,682	5,635	6,775	6,572	8,431	7,540	9,185	11,547	13,110
Other items, net	-15,691	-17,953	-18,313	-16,949	-19,674	-17,893	-21,275	-18,904	-19,787	-20,523	-21,527
Monetary aggregates											
Currency outside banks (Liberian banknotes and coins only)	2,648	3,317	3,988	4,009	4,847	4,611	6,028	5,500	6,669	8,240	9,303
Commercial bank reserves at Central Bank of Liberia <sup>1</sup>	420	502	618	743	741	871	928	1,030	1,259	1,586	1,805
Of which : required reserves	208	317	388	463	465	543	583	647	792	1,001	1,139
Reserve money <sup>2</sup>	3,233	4,096	4,938	5,087	5,993	5,867	7,459	6,989	8,484	10,515	11,885
Commercial bank deposits <sup>3</sup>	5,901	8,660	10,765	13,127	12,917	15,396	16,175	17,939	21,866	27,424	31,206
Total demand deposits	3,973	5,542	6,828	8,873	8,194	10,406	10,260	12,190	14,826	18,531	21,086
L\$-denominated deposits	342	524	734	831	881	974	1,103	1,223	1,497	1,892	2,152
US\$-denominated deposits	3,631	5,018	6,094	8,042	7,313	9,432	9,157	10,967	13,329	16,639	18,934
Time, savings, and other deposits	1,928	3,118	3,936	4,254	4,723	4,990	5,915	5,749	7,039	8,893	10,120
L\$-denominated deposits	484	724	1,029	1,272	1,235	1,492	1,546	1,719	2,105	2,659	3,026
US\$-denominated deposits	1,444	2,394	2,907	2,982	3,488	3,498	4,368	4,030	4,935	6,234	7,094
Broad money (M2) <sup>4</sup>	8,549	11,977	14,753	17,137	17,764	20,007	22,203	23,438	28,534	35,664	40,509
L\$ component	3,473	4,566	5,751	6,112	6,963	7,077	8,677	8,442	10,271	12,791	14,481
US\$ component	5,075	7,411	9,001	11,024	10,801	12,929	13,525	14,997	18,263	22,873	26,027
Memorandum items:											
US\$ component broad money (excluding banknotes, US\$ millions)	85.3	118.6	132.5	173.6	148.5	198.9	175.3	227.2	268.7	326.7	360.9
US\$ component of broad money (percent of broad money, excluding banknotes)	59.4	61.9	61.0	64.3	60.8	64.6	60.9	64.0	64.0	64.1	64.3
US\$-denominated demand deposits (US\$ millions)	61.0	80.3	89.7	126.6	100.5	145.1	118.7	166.2	196.1	237.7	262.6
US\$-denominated time, saving, and other deposits (US\$ millions)	24.3	38.3	42.8	47.0	48.0	53.8	56.6	61.1	72.6	89.0	98.4
Broad money (annual change)	34.4	40.1	23.2	43.1	20.4	16.7	25.0	17.2	21.7	25.0	13.6
L\$ component broad money (percent of beginning period broad money)	10.9	12.8	9.9	12.9	8.2	5.6	9.6	6.8	7.8	8.8	4.7
US\$ component broad money (percent of beginning period broad money)	23.5	27.3	13.3	30.2	12.2	11.1	15.3	10.3	13.9	16.2	8.8
Currency in circulation (annual change)	18.3	27.7	20.2	20.9	21.6	15.0	24.3	19.3	21.3	23.6	12.9
Reserve money (annual change)	23.9	26.7	20.6	24.2	21.4	15.3	24.5	19.1	21.4	23.9	13.0
Credit to central government (annual change)	-1.8	9.7	10.7	1.6	7.4	4.4	-77.3	-74.0	5.8	5.0	5.6
Credit to private sector (annual change)	49.2	46.2	21.5	20.4	20.0	17.3	25.2	15.2	22.4	26.3	13.8
CBL's net foreign exchange position (US\$ millions)	21.7	35.1	44.5	50.7	59.0	62.7	78.0	79.7	101.7	130.7	149.7
Money Multiplier	2.6	2.9	3.0	3.4	3.0	3.4	3.0	3.4	3.4	3.4	3.4
Velocity (GDP relative to broad money)	4.3	3.8	3.8	3.2	3.8	3.2	3.8	3.2	3.2	3.2	3.2
Currency/deposits (percent; L\$ only)	321	266	226	191	229	187	227	187	185	181	180
Nominal GDP	36,389	45,913	55,582	55,285	66,693	64,839	83,516	74,706	91,476	115,567	131,503

Sources: Liberian authorities; and IMF staff estimates.

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

Table 5. Liberia: External Financing Requirements and Sources, 2007-2013  
(US\$ millions)

	Est. 2007	2008	2009	Projections			
				2010	2011	2012	2013
I. Total financing requirement	-2,020	-6,264	-1,489	-5,482	-1,327	-1,339	-1,263
Current account (excluding donor grants)	-1,368	-1,399	-1,473	-1,340	-1,286	-1,290	-1,233
Amortization (excluding IMF)	-5	-14	-10	-3,280	-4	-4	-4
Amortization (IMF credit and loans)	0	-860	0	-834	-5	0	0
Change in reserves (increase = -)	17	-45	-6	-29	-32	-44	-26
Reduction in arrears (reduction = -)	-665	-3,947	0	0	0	0	0
II. Available financing	1,208	1,075	1,360	1,250	1,315	1,339	1,263
Current transfers	1,094	1,051	1,119	1,037	1,031	985	913
Foreign direct investment	127	200	378	351	440	470	401
Official medium- and long-term flows	0	0	0	0	27	33	36
Other (short-term private financing flows)	-13	-176	-137	-138	-182	-149	-87
Required Financing = I+II	-812	-5,189	-129	-4,232	-12	0	0
Financing	812	5,189	129	4,232	12	0	0
Identified financing (provisional)							
Debt forgiveness and debt relief grants	666	257	4	4,112	5	0	0
Debt rescheduling <sup>1</sup>	146	4,050	108	106	0	0	0
IMF PRGF-EFF	0	882	17	14	7	0	0
Unfinanced gap	0	0	0	0	0	0	0

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

<sup>1</sup> Assumed to be financed by deferral of payments to official bilateral, commercial and multilateral creditors. See Table 2.

Table 6. 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 <sup>1</sup>														
PRGF	214.3	11.4	8.9	4.4	-	-	-	-	-	-	-			
EFF	342.8	-	-	-	-	-	-	-	-	-	-			
Projected debt service to the Fund <sup>2</sup>	11.5	12.2	12.2	20.2	49.3	96.6	115.7	114.0	112.1	108.8	56.2	4.3	2.2	0.4
<i>Percent of</i>														
GDP	1.8	1.7	1.4	2.0	3.9	7.0	7.8	7.0	6.4	5.8	2.8	0.2	0.1	0.0
Gross Official Reserves	17.7	14.6	11.8	16.8	36.0	66.1	54.2	44.5	36.5	29.5	13.9	1.0	0.5	0.1
Exports of goods and services	4.8	3.7	2.7	2.7	4.2	7.7	11.4	10.3	9.2	8.3	4.0	0.3	0.1	0.0
Fiscal revenues (excluding grants)	7.5	6.7	6.0	8.5	16.6	29.1	32.0	29.0	26.3	23.7	11.4	0.8	0.4	0.1
Projected debt service to the Fund after HIPC and beyond-HIPC debt relief <sup>3</sup>	0.4	0.4	0.4	2.9	0.2	0.2	2.3	4.3	6.0	7.2	7.1	4.3	2.2	0.4
<i>Percent of</i>														
GDP	0.1	0.1	0.1	0.3	0.0	0.0	0.2	0.3	0.3	0.4	0.3	0.2	0.1	0.0
Gross Official Reserves	0.6	0.5	0.4	2.4	0.1	0.1	1.1	1.7	2.0	1.9	1.8	1.0	0.5	0.1
Exports of goods and services	0.2	0.1	0.1	0.4	0.0	0.0	0.2	0.4	0.5	0.5	0.5	0.3	0.1	0.0
Fiscal revenues (excluding grants)	0.2	0.2	0.2	1.2	0.1	0.0	0.6	1.1	1.4	1.6	1.4	0.8	0.4	0.1
Fund credit outstanding <sup>4</sup>	557.0	568.5	28.7	33.2	33.2	33.2	31.1	26.9	21.0	14.0	7.1	2.8	0.6	0.1
<i>Percent of</i>														
GDP	87.7	77.1	3.4	3.3	2.6	2.4	2.1	1.7	1.2	0.7	0.3	0.1	0.0	0.0
Gross Official Reserves	856.9	679.1	27.8	27.6	24.3	22.7	14.6	10.5	6.8	3.8	1.7	0.6	0.1	0.0
Exports of goods and services	230.3	174.2	6.4	4.4	2.8	2.6	3.1	2.4	1.7	1.1	0.5	0.2	0.0	0.0
Fiscal revenues (excluding grants)	363.2	313.1	14.0	14.0	11.2	10.0	8.6	6.9	4.9	3.0	1.4	0.5	0.1	0.0
Quota (under the 11th General Review)	431.1	440.0	22.2	25.7	25.7	25.7	24.1	20.9	16.3	10.8	5.5	2.2	0.5	0.1

Source: Finance Department and IMF staff estimates.

<sup>1</sup> 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 eligible for HIPC debt relief.

<sup>2</sup> Data are actual for Mar-Nov 2008. EFF charges during Dec. 2008 to Dec. 2010 are based on projections as of end-October 2008. Beyond the completion point, EFF charges are based on assumed SDR interest rate (gradually rising to 5 percent) plus 100 basis points and adjustments for deferred charges. Projected debt services do not include net SDR charges and assessments.

<sup>3</sup> 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 interim period.

<sup>4</sup> Fund credit outstanding after HIPC and beyond-HIPC debt relief.

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

Amount	Disbursement Date	Conditions for Disbursement <sup>12</sup>
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 <sup>13</sup>
PRGF: SDR 7.00 Million	December 22, 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

<sup>12</sup> In addition to the conditions that normally apply to a PRGF arrangement.

<sup>13</sup> The first disbursement was drawn on March 14, 2008.

Table 8. Liberia: Millenium Development Goals

	1990	1995	2000	2007
<b>General Indicators</b>				
Population (millions)	2.1	2.1	3.1	3.8
Gross national income (\$ billions)	0.6	0.3	0.4	0.6
GNI per capita (\$)	280.0	110.0	130.0	150.0
Adult literacy rate (percent of people of ages 15 and over)	...	41.0	...	...
Total fertility rate (births for women)	6.9	6.8	6.8	6.8
Life expectancy at birth (years)	41.0	42.0	43.0	45.0
Trade (% of GDP)	...	80.8	47.5	89.9
<b>Goal 1. Eradicate extreme poverty and hunger</b>				
2015 target = halve 1990 \$1 a day poverty and malnutrition rates:				
Prevalence of child malnutrition (percent of children under 5)	...	...	22.8	...
Population below minimum level of dietary energy consumption (in percent)	34.0	42.0	...	...
<b>Goal 2. Achieve universal primary education</b>				
2015 target: = net enrollment to 100				
Net primary enrollment ratio (percent of relevant age group)	...	...	...	63.0
Percentage of cohort reaching grade 5 (in percent)	...	...	...	...
<b>Goal 3. Promote gender equality</b>				
2005 targets = education ratio to 100				
Ratio of girls to boys in primary and secondary education (in percent)	...	...	73.0	90.0
Ratio of young literate females to males (percent of ages 15-24)	...	84.0	...	...
Share of women employed in the nonagricultural sector (in percent)	...	...	11.4	...
Proportion of seats held by women in national parliament (in percent)	...	6.0	8.0	13.0
<b>Goal 4. Reduce child mortality</b>				
2015 target = Reduce 1990 under 5 mortality 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
Immunization, measles (percent of children under 12 months)	...	...	52.0	94.0
<b>Goal 5. Improve maternal health</b>				
2015 target: Reduce 1990 maternal mortality by two-thirds				
Maternal mortality ratio (modeled estimate per 100,000 live births)	...	...	1,200.0	...
Births attended by skilled health staff (percent of total)	...	...	51.0	...
<b>Goal 6. Combat HIV/AIDS, malaria and other diseases</b>				
2015 target: = halted, and begin to reverse, AIDS, etc.				
Prevalence of HIV, total (percent of ages 15-24)	...	...	1.4	1.7
Contraceptive prevalence rate (percent of women of ages 15-49)	...	...	...	...
Incidence of tuberculosis (per 100,000 people)	147.0	198.0	287.0	331.0
Tuberculosis cases detected under DOTS (in percent)	...	31.0	26.0	55.0
<b>Goal 7. Ensure environmental sustainability</b>				
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 2015, have achieved a significant improvement in the lives of at least 100 million dwellers.				
Forest area (percent of total land area)	...	...	36.0	33.0
Nationally protected areas (percent of total land area)	...	...	...	...
CO2 emissions (metric tons per capita)	0.1	0.2	0.1	...
Access to an improved water source (percent of population)	...	61.0	63.0	64.0
Access to improved sanitation (percent of population)	...	36.0	32.0	32.0
<b>Goal 8. Develop a Global Partnership for Development</b>				
Targets: Develop further 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\$)	75.0	57.0	22.0	75.0
Youth unemployment rate (percent of total labor force of ages 15-24)	...	...	...	...
Internet users (per 100 people)	...	0.0	0.0	15.0
Personal computers (per 1,000 people)	...	...	...	...

Source: World Development Indicators database, September 2008

**Appendix I – Letter of Intent**

Monrovia, December 3, 2008

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

Dear Mr. Strauss-Kahn:

The attached memorandum updates our policy framework supported by the Poverty Reduction and Growth Facility (PRGF) as set out in our Memorandum of Economic and Financial Policies (MEFP) of February 27, 2008. It describes our policies for the period January-December 2009.

Liberia was significantly affected by the sharp rise in world food and fuel prices in the first half of 2008; year-on-year inflation peaked at almost 27 percent in August, and the trade deficit in the first three quarters of the year was double that recorded in the same period of last year. Recognizing its limited own resources, the government formulated a comprehensive food security policy with the assistance of key international donors to protect the most vulnerable segments of our society. However, despite these challenges, economic activity remained strong, with real GDP growth of around 7 percent, and we made further good progress in implementing our poverty reduction strategy. We are cognizant of the risks posed by current global financial market turmoil, and the possibility for spill-over into the real sector, but are optimistic about our economic prospects for 2009.

Performance under the PRGF-supported program through June 2008 has been strong; we have met all of the quantitative benchmarks and performance criteria under the program, as well as all of the structural benchmarks and performance criteria, although the performance criterion relating to the merger of the Bureau of the Budget into the Ministry of Finance was met with a slight delay. Legislation to allow the Bureau of the Budget to be merged into the Ministry of Finance (an end-June 2008 performance criterion), a key element of our program to strengthen public finance management, was passed by the legislature in September 2008. Since then we have made strong progress to effect the merger, including through the employment of a change management adviser to advise us on the new organizational structure of the Ministry of Finance. We are confident that the merger will be completed by end-December 2008, and we therefore request a waiver of nonobservance with respect to this performance criterion.



The Government of Liberia and the CBL believe that the economic and financial policies set forth in the attached memorandum provide an adequate basis for achieving the objectives and targets of our program, but we will take any additional measures that may become necessary for this purpose. We will 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. We will provide the Fund with all information necessary to monitor implementation of the program supported by the PRGF in a timely manner. 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. Two program and financing assurances reviews will be conducted during the second year of the program and are expected to be completed by end-October 2009 and end-April 2010.

On the basis of this performance, and on the strength of the policies set forth in the attached memorandum, we request that the IMF complete the first review under the PRGF arrangement and approve the second disbursement (in the amount of SDR 7.0 million).

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 for the 2008 Article IV consultation discussions and first review under the PRGF available to the public.

Sincerely yours,

/s/

Augustine Ngafuan  
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–December 2009**

### **I. INTRODUCTION**

1. This memorandum describes the Government of Liberia's achievements in 2008 under the program supported by the IMF's Poverty Reduction and Growth Facility (PRGF) and Extended Fund Facility (EFF). We also describe our annual program of economic and financial policies for January to December 2009.
2. Under our economic program in 2008, we have maintained broad macroeconomic stability and successfully implemented critical structural reforms aimed at strengthening governance, public financial management, and financial sector stability. Our economic achievements thus far, and our program for 2009, reflect our continued commitment to sound economic policies consistent with the national medium-term objectives that we have outlined in our three year Poverty Reduction Strategy (PRS) which was established in April 2008.

### **II. POVERTY REDUCTION AND GROWTH STRATEGY**

3. Our three-year PRS that is supported by the PRGF/EFF arrangement was finalized in April 2008 following a participatory process involving all levels of society and our international partners. The central objectives of the PRS are to firmly establish a stable and secure environment across Liberia; to be on an irreversible path toward rapid, inclusive and sustainable growth and development; to rebuild the capabilities of and provide new opportunities for Liberia's greatest asset—its people—and to have established responsible institutions of justice, human rights, and governance.
4. The strategy to achieve these objectives is built on four pillars: (i) consolidating peace and security; (ii) revitalizing the economy; (iii) strengthening governance and the rule of law; and (iv) rehabilitating infrastructure and delivering basic services. All four pillars are critical for establishing the foundation for sustained growth and development, and actions in one pillar reinforce actions taken in others.
5. In the context of this memorandum, the basic strategy for economic growth and poverty reduction is particularly important. There are three basic prongs to our growth strategy:
  - First, we must rebuild our infrastructure, particularly roads. The PRS process revealed that across the country, Liberians' number one priority is better roads, which Liberians see as essential for creating jobs and new economic opportunities, revitalizing agriculture, reducing prices, strengthening local governance, facilitating access to health and education services, increasing the effectiveness of the police and other security forces, and helping to maintain peace.

- Second, we must quickly revive our traditional sources of economic growth – rubber, timber, mining and cash crops – and ensure that the benefits accrue to all Liberians in a sustainable manner. Concession contracts aim to balance the need to generate competitive returns for investors with the need for robust and transparent financial flows. The Government is working hard to revitalize agriculture as the bedrock of the economy, as it provides livelihoods for the majority of Liberians, and this has become even more important in the context of the global food crisis. A vibrant agricultural sector is central to reducing poverty, providing food security, and ensuring progress toward the Millennium Development Goals.
- Third, the Government is beginning to take strong steps to diversify the economy over the medium term into the competitive production of labor-intensive downstream products, manufactured goods, and services. It aims to create an open economy with a strong business environment with low tariff and non-tariff barriers, strong linkages to international markets, minimal government intervention except where necessary to address market failure, and low levels of red tape and unproductive regulation.

6. In all of these activities, the private sector will be the main driver of growth. Of course, economic growth alone will not ensure poverty reduction. But taken together with actions across the pillars—creating a peaceful and secure environment, building strong institutions of governance, and delivering effective health and education services—these actions will provide the foundation for rapid, sustainable and equitable growth. The actions described in this memorandum are all taken to further the objectives of Liberia’s PRS.

7. For the three-year period 2008/09-2010/11, we estimate the total cost of implementing the PRS at US\$1.6 billion. We expect to be able to finance about a third of this with our own resources, which leaves a funding gap of approximately US\$1.1 billion, or about US\$370 million per year. While the precise level of donor support is uncertain—improving data collection and strengthening aid management is one of our key priorities—present donor support, while extremely important, does not fill the funding gap, and is not always fully aligned with the PRS.<sup>1</sup> In particular, our highest priority in the PRS, infrastructure, continues to need funding. Owing to the near absence of donor support through the budget, we are actively working on a mechanism to better coordinate and manage aid in line with the PRS priorities. We expect our national budget to be the central instrument for coordination of donor assistance and PRS alignment. We would therefore welcome higher levels of budgetary support to provide us with greater fiscal space over time. We have made

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<sup>1</sup> According to the OECD, total official development assistance (ODA) to Liberia in 2006 was US\$269 million. We are in the process of refining our detailed estimates of the PRS programs and of donor support following the June 2008 Berlin Partners’ conference.

great strides in improving our public financial management systems. Going forward, we remain committed to deepening and strengthening the PFM reform program.

### III. RECENT ECONOMIC DEVELOPMENTS

8. Liberia's economy continued its strong recovery in 2008 with growth estimated at about 7 percent. The pace of economic growth continues to reflect our natural resource sectors—in particular agriculture, domestic forestry activity, and mining; the service sector also continues its strong recovery supported by a large donor presence, construction services, and the expansion of government activity.

9. Liberia has, however, been hit hard by the global surge in food and fuel prices. In 2008, our trade deficit is estimated to have widened by 17 percent of GDP owing to these shocks. Rice is an important part of Liberians daily diet, and the surge in international prices—around 120 percent in the twelve months to September—poses a severe risk to food security as two thirds of rice consumption in Liberia is imported. To mitigate the impact of these shocks, we have (given our limited resources) implemented a number of measures: (i) with the help of our development partners expanded food aid to vulnerable households, including school children; (ii) secured rice seed and farm tools for small farmers and approved two large concession agreements for commercial rice production; and (iii) suspended the rice import levy as well as import duties on agricultural tools and raw materials. The suspension of the rice import levy resulted in a revenue loss of about US\$3 million in Fiscal Year (FY) 2007/08 and will cost a further US\$8 million in FY2008/09. To mitigate the poverty impact of higher prices, we also increased the minimum wage for civil servants by close to 30 percent in our FY 2008/09 budget and eliminated the withholding tax on annual incomes of up to US\$840. These measures are consistent with our broader civil service and tax reform strategies. To provide some limited relief to users of public transportation in greater Monrovia, we have provided a small fuel subsidy to the public transit authority in Monrovia, while maintaining our policy of full pass through of all international fuel prices to the domestic market.

10. Notwithstanding the rise in international food and oil prices, we have maintained broad macroeconomic stability supported by our implementation of a cash-based balanced budget, and the achievement of broad exchange rate stability. While the overall inflation rate reached 20 percent year-on-year in September, core inflation, i.e. excluding food and fuel prices, was just over 7 percent. The Liberian dollar/U.S. dollar exchange depreciated by 3.2 percent in the twelve months to September. Given the high degree of dollarization and openness of the economy, the broad stability of the exchange rate has been significant in restraining domestic inflation. For 2009, we expect inflation to subside significantly to single-digit levels as international food and oil prices fall somewhat from their currently high levels and domestic food production increases.

## IV. PROGRAM IMPLEMENTATION THROUGH 2008

### A. Fiscal Policy

11. In the execution of the FY 2007/08 cash-based budget, we made substantial gains in revenue collection as revenues rose by close to 40 percent compared to FY 2006/07. This is almost 10 percent higher than the budget target. Our strong performance reflects the continued strong economy, iron ore concession payments, and gains from the reorganization of domestic tax administration. Total expenditures (including payment of arrears) increased by about 50 percent relative to the previous fiscal year, broadly in line with the budget. Budget implementation was supported by further progress in strengthening the procurement capacity of line ministries which reduced the rejection rate of vouchers at the commitment stage. We observed the program target for the fiscal balance by a comfortable margin and did not accumulate any new domestic payment arrears (Table 1).

12. We have made considerable progress advancing the legislative agenda for improving public financial management. On March 14, 2008, the Legislature passed legislation to limit transfers between budget lines without legislative approval to a cumulative total of no more than 20 percent (end-March 2008 performance criterion). This Law will help us to improve accountability and predictability of budget execution. In September the Legislature passed the law for the merger of the Bureau of Budget (BoB) into the Ministry of Finance (MoF). This Legislation was an end-June 2008 performance criterion, Table 2), which is a key step toward overcoming the present segmentation of budget preparation and execution. We have put in place a high level committee to make final recommendations on integration issues and expect to complete the merger by end-December 2008 (end-December 2008 benchmark). In September, we also submitted a new comprehensive Public Financial Management Act to the Legislature (an end-December performance criterion). We are working closely with the relevant legislative subcommittees with a view to approving this important legislation in January 2009.

13. The budget for FY 2008/09 continues our policy of maintaining a cash-based budget that precludes borrowing. The budget consists of a base budget and a contingent budget. Expenditure items in the latter will only be spent if contingent revenue projections are realized (they are more uncertain than those in the base budget) and if the base budget is not experiencing underperformance in revenue. We are in the process of formalizing procedures to be adopted before end-December 2008 for the execution of Contingent Budget expenditure, consistent with our Financial Rules and commitment control system. The expenditure allocations in the base budget (US\$270.2 million, including debt repayments) are consistent with our commitment to allocate at least 55 percent of our total resources to PRS implementation. These expenditures will be financed through collection of US\$249 million in revenue and the remainder through cash reserves accumulated in the previous fiscal year. Part of the projected revenue collection, however, is related to concession payments (about

US\$28.5 million linked to the Western Cluster and Bong mining concessions). With due diligence on Bong Mines finalized, and the process of re-tender for the Western Cluster begun, we expect to complete the concession awards in early 2009, but they could slip into the following fiscal year. On the upside, we expect to receive about US\$19 million in budgetary support from the African Development Bank (AfDB) and the World Bank that was not included in the budget. Nevertheless, to guard against revenue risks, we are currently considering contingency measures for reducing expenditures in case cash shortages materialize. We are also working on a cash flow framework to help improve our cash planning and management.

14. We recognize the need to strengthen the commitment control process for county development funds (CDF) which have increased in recent years. We have received financial reporting for spending in the previous fiscal year and field inspections are underway. The budget act for FY 2008/09 also specifies guidelines for improved accountabilities for these funds that we intend to enforce. We are also conducting joint project monitoring exercises with the Ministry of Internal Affairs and the United Nations Development Program (UNDP). Improving the effectiveness of CDF spending as well as its transparency and accountability, is an ongoing priority.

15. We have made progress in preparing a medium-term fiscal framework (MTFF, end-December 2008 benchmark), which serves as a first step toward introducing a medium-term perspective to budget preparation. We have developed a detailed MTFF-template that captures most of our fiscal activities, but the underlying projection and financial programming methodologies need to be further refined as our capacity for macroeconomic analysis develops.

## **B. Governance and Public Financial Management**

16. We have made substantial progress in setting up an institutional framework for combating corruption. The Liberia Anti-Corruption Commission (LACC) Act was signed into law by the President on August 21, following which the Chairperson and other Commissioners were appointed and confirmed by the legislature (establishment of the LACC is an end-September 2008 performance criterion). Members of the LACC have been commissioned by the President. The LACC is charged with investigating acts of corruption discovered or reported to have occurred in public, private, and civil society sectors of Liberia, and also has independent prosecutorial powers. We expect that with donor support, the LACC will be fully functional by end-December 2008.

17. The Extractive Industries Transparency Initiative (EITI) is an integral part of our policy to achieve accountable and transparent resource governance. To promote this initiative, we issued in September 2008 a proclamation making disclosure and publication of information on revenue and payment transactions covered under EITI binding on all government agencies as well as extractive companies operating in Liberia. We also intend to

proceed with the drafting of specific legislation that will deepen our commitment to the EITI principles in Liberia.

18. In line with our commitment to greater transparency, the General Auditing Commission (GAC) has completed several audits including of the MoF, the consolidated revenue and expenditure accounts of the government for FY 2006/07, and several commissions, funds and autonomous agencies. The GAC has highlighted the need for improvements in public financial management systems, procedures, and reporting, including internal audit capacity, on which we are actively working as part of our broad PFM reforms.

19. We have begun the preparatory work for introducing an IFMIS, which is targeted to become fully operational on July 1, 2010. The World Bank is supporting us with this project. We will implement this system in a phased modular approach, with the first phase encompassing (i) a general ledger (critical for accounting and reconciliation functions), (ii) a cash management module (for handling bank reconciliation and cash forecasting), (iii) an accounts payable module (critical for commitment control), (iv) an accounts receivable module for recording revenue receipts), (v) a budget preparation module, and (vi) a payroll management module. We have finalized the project charter that defines the major goals and objectives of this project, contains a risk analysis, and sets milestones and key dates.

### **C. Monetary Policy**

20. The CBL has met all of the quantitative program targets through June, and all structural program conditionalities. We achieved our key objectives of implementing a balanced operational budget and further building up the net foreign exchange position. The latter increased to US\$47 million in September from US\$35.1 million at end-2007. Monetary policy in the first three quarters of 2008 was aimed at maintaining relative stability of the Liberian dollar/U.S. dollar exchange rate, the main policy anchor. While year-on-year inflation accelerated in the year, this was mostly because of large increases in international commodity prices and in the prices of domestically produced food items. We are cognizant that a sustained real appreciation can undermine our international competitiveness. The growth strategy outlined in the PRS also suggest that reforms in the real sector, in particular infrastructure development, are the critical factors for reducing production costs and developing our economic potential.

21. We have made substantial progress in strengthening the domestic banks as evidenced by a strong increase in the capital adequacy of the banking system. We also established a system for regular on-site and off-site inspection of each operating bank, and will continue its implementation in 2009. We took stock of all operating banks and published a list of banks licensed to operate in Liberia as part of our strategy for the resolution of abandoned and non-operating banks (end-March 2008 benchmark). The number of banks operating in Liberia increased to six, with the opening of a new bank in July 2008. The CBL has granted provisional licenses to two additional banks, one with a focus mainly on microfinance, whose

ownership includes the International Finance Corporation and the African Development Bank.

#### **D. External Policies and Debt Resolution**

22. As covered in our PRS, Liberia's comparative advantage lies in natural resource-based industries. This was also confirmed by the Diagnostic Trade Integration Study which explored options for promoting trade and growth. We also recognize that over time we should not rely solely on natural resources, and must take steps to diversify our economy and increase competitiveness in downstream products, manufacturing and services. To realize our economic potential, the study makes recommendations to strengthen financial services, the investment climate (infrastructure development is the foremost challenge), improve customs and trade facilitation, and develop sectoral strategies to promote agricultural and natural resource sectors.

23. Cabinet endorsed our debt management strategy for addressing Liberia's external and domestic debt overhang as well as establishing the institutional and legal framework for debt management (end-June 2008 benchmark).<sup>2</sup>

- The resolution strategy for Liberia's external debt overhang is based primarily on the Heavily Indebted Poor Country (HIPC) Initiative. Following the decision point under the HIPC Initiative in March 2008, we negotiated in April a generous restructuring of our bilateral debt with the Paris Club. Since then, we have signed individual agreements with the U.S.A, Germany and Denmark, and are close to finalizing agreements with several other countries. We are seeking comparable debt relief terms from our non-Paris Club and commercial creditors. Regarding the former, China has announced its intention to forgive all our outstanding debt, and IFAD, the Saudi Fund, OFID, and BADEA have agreed to treat our debt on terms fully consistent with the HIPC initiative. To settle our commercial debt, we are now working on a potential buy-back operation with support from the World Bank and other donors within the framework of the IDA Debt Reduction Facility. The reconciliation of outstanding claims of commercial creditors has already been concluded.
- We have completed the validation of our domestic debt claims by creditors and, after application of a discount, accepted claims of US\$300.5 million, with the Central Bank of Liberia being our largest creditor. We have finalized agreements with the CBL, LBDI, and ECOBANK whose total discounted claims amount to US\$267.9 million, and we

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<sup>2</sup> The strategy has been approved by the President, and was presented to and endorsed by Cabinet during its meeting on June 20, 2008. It is being implemented during FY 2008/09.



expect to settle these claims over the next 40 years. We have also made significant progress with payments on vendor and other claims.

- To strengthen our institutional debt management capacity, we have assigned responsibility for recording and managing public debt statistics, reviewing loan documents, and assessing concessionality levels of new borrowing to the Debt Management Unit within MoF. The immediate task is rebuilding the debt database and implementing a secure record keeping mechanism for existing loan documents. We have also begun a discussion with development partners for assistance to procure a debt management software package. Given our limited debt management capacity at this stage and the external debt overhang, we are not planning to contract or guarantee any new debt in 2009 (this applies also to state-owned enterprises and the CBL).

### **E. Other Structural Reforms**

24. The civil service reform strategy was endorsed by Cabinet in June 2008 (end-June 2008 benchmark). The goal of this reform is to create a robust, professional, and adequately compensated civil service that effectively and efficiently delivers high quality services to the people aimed at improving and sustaining their quality of life. The strategy comprises six key reform components: (i) restructuring and right sizing; (ii) pay and pension reforms; (iii) improving public service delivery; (iv) human resources management; (v) leadership development; (vi) gender equity. Work is advancing on the implementation of the bio-metric identification cards, and on the pay and pension reform strategies.

25. We also finalized in July 2008 a National Statistical Development Strategy (end-March 2008 benchmark). This strategy lays out the institutional arrangements to improve the comprehensiveness, quality and timeliness of critical national statistics required to monitor the PRS implementation. In light of their importance, we have prioritized economic statistics, including national accounts, and the household income and expenditure surveys to be completed by 2010.

## **V. 2009 PROGRAM**

### **A. Fiscal Policy**

26. We plan to submit early in 2009 a number of amendments to the Liberia Revenue Code (LRC):

- Changes to income taxation: effective in early 2009, we intend to reduce the top personal income and corporate tax rates from 35 to 30 percent and lower the presumptive income tax rate from 4 to 2 percent on turnover. We also intend to enact a minimum income tax threshold.

- Investment incentives: the revised investment code will restrict all tax exemptions to those contained in the LRC, which is a completion point trigger under the HIPC Initiative. To limit the scope for discretionary tax incentives, we will also repeal section 204(e) of the LRC, and replace it with a more transparent schedule of investment incentives for selected economic sectors beyond the general provisions of the LRC.
- Income taxation of agricultural, renewable, and natural resources (mining and petroleum): this amendment will codify general fiscal terms for the most important concession agreements, thereby further restricting the scope for discretion and ensuring best practice in an area that is vital for our economic development and that will become a key revenue source over the medium to long run.
- Reform of the Goods and Services Tax (GST): to strengthen our revenue potential and harmonize our tax rates with those of our neighbors, we will raise the GST rate on all goods and services (except food) in a number of steps from 7 to 10 percent, and we will extend the GST coverage to telecommunication services, gambling services, hotel services, and airline tickets. The raising of GST rates will be done on a phased implementation basis, beginning with telecommunications services.
- External tariff reform: we are committed to a phased implementation of the ECOWAS common external tariff (CET) by 2012 and will begin this process in 2009 by adopting the ECOWAS tariff book. In a first step toward tariff harmonization, we will reduce rates that are above the CET. The revenue impact will be compensated for by an increase in excise taxes in line with our medium term tax reform program.

27. The next phase of our revenue administration reform centers on automation of tax and customs administration. The World Bank is supporting us in procuring and installing an integrated tax administration system (ITAS); for the automation of customs administration, we intend to use budget support resources from the AfDB to acquire the ASYCUDA system developed by UNCTAD. To enhance customs services, we plan for March 2009, the opening of a one-stop customs facility in the port of Monrovia that will house representatives from customs, the port authority, the PSI company, and the CBL.

28. We are planning several initiatives for 2009 to improve budget execution:

- Improving procurement practices: we have reviewed the Public Procurement Concession Act and prepared a number of amendments (e.g., raising of thresholds for competitive biddings) to be submitted to the Legislature in early 2009. Following legislative passage, we are going to prepare and issue a comprehensive set of implementing regulations and manuals that will provide detailed instructions on the correct application of the law. We will also begin to publish regularly procurement information and summaries of contract awards. Finally, we will continue our training

programs to strengthen procurement capacity within line ministries and to ensure smooth implementation of the procurement plans of the Ministries and Agencies (M&As).

- Further strengthening of payroll management: building on a pilot program for direct deposit of salaries and allowances currently under way in some M&As, we plan to introduce this more widely in 2009. As part of the implementation of our civil service reform strategy, we also aim to approve a pay reform strategy that consolidates base salaries and allowances and help make the civil service more attractive for qualified staff by decompressing the pay scale.
- Better reconciliation between MoF and CBL: currently, the large number of checks issued and the need for manual reconciliation represents a major bottleneck. To move toward automatic reconciliation, we plan to fully deploy a software system with accounting and reconciliation functions. This will also help us to move toward a double-entry accounting standard within MoF. To this end, we intend to approve the accounting standards and an updated chart of accounts currently under development by end-June 2009 (end-June 2009 benchmark). Following completion of the training program for MoF accountants, we will adopt double entry accounting by end-June 2009 in MoF. Training programs will continue for accountants of other line ministries in preparation of extension of double-entry accounting throughout the government.

## **B. Governance and Public Financial Management**

29. We recognize the critical importance of a strong legal foundation for public financial management.<sup>3</sup> We have therefore maintained active dialogue with members of the Legislature with a view to facilitating passage of the PFM Law in early 2009. In anticipation of the new Law, we have also secured technical assistance from the IMF for the preparation of the implementing regulations for the Law, which we intend to issue no later than end-June 2009.

30. We expect to finalize our first EITI report in early 2009.<sup>4</sup> We also intend to proceed with the drafting of specific legislation that will deepen our commitment to the EITI principles in Liberia which also covers activities in the forestry sector.

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<sup>3</sup> Implementing the PFM act and supporting financial regulations for at least 12 months is a completion point trigger.

<sup>4</sup> Regular reporting of payments and revenues related to the extractive industry in line with EITI criteria is another completion point trigger

31. A key objective of our external audit strategy is the completion of successive external audits of five key ministries.<sup>5</sup> We expect the GAC to complete the FY 2006/07 audits of the Ministries of Finance, Health, Education, Public Works, as well as Land, Mines and Energy by end-January 2009. The audit reports will be submitted to the Legislature and disclosed publicly. The corresponding audits for FY 2007/08 should be completed within the first half of 2009. The GAC will also audit the central government's accounts for FY 2007/08 and we expect this report to be completed, submitted to Legislature, and made public by end-March 2009, in time for the budget deliberations for FY 2009/10 (performance criterion).

### **C. Monetary Policy**

32. In 2009, monetary policy will continue to aim at maintaining relative exchange rate stability, and with the recent decline in international commodity prices, notably for food and fuel, we anticipate that inflation will decline to single digits by end-year. The CBL will continue to operate a balance budget. However, this is likely to pose a challenge to meeting the operational and developmental needs of the Bank in the wake of lower international interest rates associated with the response in major financial centers to the international financial crisis and the likelihood that its income could also potentially be affected by lower average government cash balances in FY 2008/09. The CBL is therefore targeting a modest build up on its net foreign exchange position to US\$62.7 million at the end of December 2009. Meanwhile, the CBL will also conduct foreign exchange auctions aimed at maintaining broad exchange rate stability of the Liberian dollar relative to the U.S. dollar, which is the major anchor for containing inflation. Efforts will also continue to strengthen the monetary policy framework and to strengthen supervision capacity to safeguard the banking system from the contagion risks associated with the ongoing international financial crisis, although Liberian commercial banks have limited exposure to international capital markets. In this regard, the CBL will engage with domestic banks as well as regular public statements to enhance public understanding of the current monetary framework. Given the importance of the foreign exchange auction to its monetary policy, the CBL intends to finalize the foreign exchange auction rules including regulations for the conduct of purchase auctions and the direct placement of foreign exchange through foreign exchange bureaus, and will publicize these rules by end-March 2009. The CBL will also collect more data on volumes in the foreign exchange market and the flow of remittances, and will continue efforts to regularize the large number of informal foreign currency traders. Steps will be taken to support the demand for Liberian dollars, including working with the fiscal authorities to increase the use of the Liberia dollar in government revenue and expenditure operations.

33. We will continue to work closely with all operating banks to ensure they follow prudent credit risk management and loan classification policies, and under supervision of the

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<sup>5</sup> A completion point trigger.

Banking Compliance Committee, will ensure that banks implement all corrective actions noted in CBL directives. In this regard, we will continue implementing our comprehensive system for quarterly off-site inspections and on-site inspections (two each per bank per year). To implement these inspections will require two full inspection teams, and will require additional staff and training in the Banking Supervision department. We intend to seek continuing IMF technical assistance in this regard. By the end of September 2009, the CBL plans to complete its first half-yearly on-site inspection report for each bank. Going forward, we expect the number of banks operating in Liberia by mid-2009 to reach a total of nine. However, a temporary moratorium on licensing of additional banks has been put in place, unless there are very clear mitigating circumstances which call for a special dispensation by the Board of the CBL. In any event, particular attention will be given to the limitations of the domestic market as well as the ability of the CBL to effectively exercise its regulatory responsibilities. To further strengthen the domestic financial sector, we will finalize comprehensive anti-money laundering/combating the financing of terrorism legislation. The Inter-Governmental Action Group Against Money Laundering in West Africa, has agreed to assist in the drafting of such legislation.

34. The CBL's income in the first three quarters of 2008 was higher than budgeted (2.4 percent), while expenditures were 15 percent lower than budgeted. This enabled the CBL to comfortably meet the program floor on its budget balance and its expenditure ceiling, and to exceed the programmed accumulation of U.S. dollar reserves by US\$3 million (7 percent). For 2009, the CBL will continue to target a balanced budget in order to further strengthen its reserves. During the year we have made substantial progress in strengthening internal management and financial controls, as confirmed by the recent special audit by our external auditors, and we are on target to complete work on implementing the International Financial Reporting Standards accounting system at the CBL beginning with the 2008 financial accounts. We have also strengthened internal controls at the CBL, including implementing the key recommendations from the 2008 IMF safeguards assessment.

#### **D. External Policies and Debt Resolution**

35. As part of our resolution strategy for the external debt overhang, we will finalize in 2009 the remaining individual Paris Club agreements and continue our efforts to seek comparable relief from our non-Paris Club creditors. We also expect to complete the commercial debt buy-back operation in early 2009. To improve our debt management capacity, we will complete the purchase of a debt management software early in 2009, upload all relevant data, and make the system fully operational by the end of 2009. With the completion point on the horizon, and having made progress in increasing our debt management capacity, we will begin considering the appropriate timing, amounts, and purposes for possible new concessional borrowing. This analysis will draw on the debt sustainability analysis to be conducted jointly by the Debt Management Unit and the Macro

Fiscal Unit. After consultation with the IMF and World Bank, we will incorporate our new borrowing approach into an updated debt management strategy.

36. Regarding domestic debt payments, we will continue to make provisions in the budget for our agreed payments on our restructured debts to the financial institutions, and on payments for the validated and discounted debts within our available revenue envelope.

### **E. Other Structural Policies**

37. A key objective of the National Statistics Development Strategy is the compilation of national accounts. Based on the establishment census completed in 2008, we will establish a sample frame for, and conduct an establishment survey that covers non-agricultural businesses. Using the 2008 population census, we will also establish a sample frame for a household income and expenditure survey. In 2009, we intend to undertake additional surveys, including on agriculture production, and mining. These surveys will provide us with the necessary data to compile a first set of national accounts, with a first set of results expected in 2010. Building on the progress thus far in completing balance of payments statistics for 2004 to 2007, we plan to complete the 2008 balance of payments statistics in 2009.

### **PROGRAM MONITORING**

38. The second year of the three-year PRGF- and EFF-supported program will continue to be monitored on the basis of six-monthly quantitative performance criteria for June 30 and December 31, 2009, and indicative targets for March 31 and September 30, 2009 (Table 3). The structural conditionalities for the program shown in Table 4, are consistent with the goals of our PRS.

Table 1. Liberia: Quantitative Performance Criteria and Indicative Targets, 2008

	(Millions of US\$)							
	Mar. 08		Jun. 08		Sep. 08		Dec. 08	
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Rev. Prog.
<b>Performance criteria and indicative targets<sup>1</sup></b>								
<b>Fiscal<sup>2</sup></b>								
Floor on revenue collections	139.5	143.4	185.7	200.8	43.3	47.3	91.7	90.8
Floor on fiscal balance <sup>3</sup>	-13.7	19.6	-13.7	3.3	0.0	-0.5	0.0	-20.4
Ceiling on new noncash tax/duty payment (continuous basis)	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
Ceiling on new external borrowing (continuous basis)	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
Ceiling on new external arrears (continuous basis)	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0
<b>CBL<sup>4</sup></b>								
Ceiling on expenses	3.9	2.3	5.5	4.4	6.9	5.8	8.5	8.9
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0
Floor on CBL's cash-based budget balance	-1.7	0.4	-1.1	0.7	-0.3	1.5	0.4	0.0
Floor on CBL's net foreign exchange position	36.4	39.4	40.0	42.5	43.9	47.1	47.5	47.5

<sup>1</sup> Performance criteria at end-June and end-December 2008.

<sup>2</sup> Cumulative; fiscal year basis.

<sup>3</sup> 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.

<sup>4</sup> Cumulative; calendar year basis.

**Table 2. Performance Criteria (bold) and Structural Benchmarks for the First Year of the PRGF/EFF Arrangements (January–December 2008)**

<u>Measures</u>	<u>Target Dates</u>	<u>Status</u>
<i>Fiscal policy</i>		
<b>Adopt legislation to limit transfers between budget lines without legislative approval to a cumulative total of no more than 30 percent.</b>	<b>End-March 2008</b>	<b>Met</b>
Prepare a chart of accounts consistent with GFSM 2001-compatible budgetary classifications.	End-March 2008	Met
<b>Adopt legislation to merge the Bureau of the Budget into the Ministry of Finance.</b>	<b>End-June 2008</b>	<b>Achieved by September</b>
Develop an internal audit strategy for the central government.	End-June 2008	Met
Complete the merger of the Bureau of the Budget into the Ministry of Finance.	End-December 2008	
<b>Submit a draft PFM law to the legislature.</b>	<b>End-December 2008</b>	<b>Met</b>
Develop a medium-term macrofiscal framework for the purpose of preparing the 2009/10 budget.	End-December 2008	
<i>Financial sector</i>		
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	Met
<b>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.</b>	<b>End-June 2008</b>	<b>Met</b>
<i>Other Areas</i>		
Finalize a comprehensive civil service reform strategy, endorsed by the cabinet.	End-June 2008	Met
Finalize debt management strategy, endorsed by the cabinet.	End-June 2008	Met
<b>Establish a functioning Liberia Anticorruption Commission, consistent with Liberia's anticorruption legislation.</b>	<b>End-September 2008</b>	<b>Expected to be functional by end-December 2008</b>
Develop a comprehensive national statistical development strategy.	End-March 2008	Achieved by August



Table 3. Liberia: Quantitative Performance Criteria and Indicative Targets, 2009

(Millions of US\$)

	Mar. 09	Jun. 09	Sep. 09	Dec. 09
	Prog.	Prog.	Prog.	Prog.
<b>Performance criteria and indicative targets <sup>1</sup></b>				
<b>Fiscal <sup>2</sup></b>				
Floor on revenue collections	148.6	230.3	66.7	133.4
Floor on fiscal balance <sup>3</sup>	-20.4	-20.4	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
<b>CBL <sup>4</sup></b>				
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0
Floor on CBL's cash-based budget balance	-1.4	-1.0	-0.4	0.0
Floor on CBL's net foreign exchange position	52.3	55.7	59.3	62.7

<sup>1</sup> Performance criteria at end-June and end-December 2009.<sup>2</sup> Cumulative; fiscal year basis.

<sup>3</sup> 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.

<sup>4</sup> Cumulative; calendar year basis.

**Table 4. Performance Criteria and Structural Benchmarks  
for January–December 2009**

Measures		Target Dates	Justification
<b>Performance criteria:</b>			
1.	Regulations for the new comprehensive Public Financial Management Act issued by the Minister of Finance.	End-June 2009	Critical to implement the new PFM Law from FY 2009/10
2.	First half-yearly on-site inspection report completed for each commercial bank, and reports, including directives and follow-up actions, approved by the Compliance Committee.	End-September 2009	Important for continued reinforcement of the soundness and stability of the banking system
3.	External audit of the central government's accounts for Fiscal Year 2007/08 completed by the General Auditing Commission and submitted to the legislature.	End-March 2009	Critical measure of credible budget execution progress
4.	National Accounts establishment survey completed.	End-December 2009	Urgently needed to monitor program performance and post conflict recovery
<b>Program benchmarks:</b>			
1.	Revised foreign exchange auction procedures including guidelines on purchase auctions and direct foreign exchange sales adopted by the CBL Board and made public.	End-March 2009	Transparency in the auction is important to stabilizing the exchange rate—the main anchor for monetary policy in Liberia
2.	Adopted accounting standards for the government and a comprehensive chart of accounts.	End-June 2009	Strengthen budget transparency and credibility
3.	Regulations and guidelines under the Public Procurement and Concessions Act approved by Cabinet and issued.	End-July 2009	Improve the pace and transparency of nonwage spending by line ministries and agencies
4.	Full balance of payments statistics for 2008 completed and published by the CBL and LISGIS.	End-October 2009	Improve macroeconomic statistics and program monitoring
5.	Debt management software installed to support data storage, analysis, reporting and interface between the CBL and the Ministry of Finance.	End-December 2009	Critical safeguard against the re-accumulation of unsustainable debt after Liberia's exit from the HIPC process

## 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 the quantitative and structural performance criteria and benchmarks for the three-year PRGF/EFF program, as well as the reporting requirements. The definitions are valid at the start of the program but may need to be revisited during the 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 and end-September 2009, and quantitative performance criteria for end-June and end-December 2009.

#### B. Definitions and Computation

3. **For the 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 comprising 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 also. For the purposes of the program, the revenues of the GoL are measured on the basis of cash deposits in the four accounts specified above 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) 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 since 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 the purposes of measurement, 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 the checks by the Ministry of Finance. Government payment commitments include all expenditure for which commitment vouchers have been approved by the Director of the Bureau of General Accounting (BGA), and expenditure 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 the 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 payments arrears on external debt that it owes or guarantees, with the exception of 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 following the expiration of the grace period.

11. **Payment 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, the CBL's commitments due include all expenditure for which goods and services have been delivered but have not been paid for.

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

13. **The CBL's net foreign exchange position** is defined as the difference between (a) the CBL's gross foreign 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**

14. 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 on this committee. The committee shall be responsible for monitoring the performance of the program, recommending policy responses, informing the IMF regularly about the progress of the program, and transmitting the supporting materials necessary for the 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**

15. To allow monitoring of developments under 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 comprise the U.S. dollar: GoL General Account No. 2; 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 also (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 program 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 three 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 banks loans and advances by sector (within three week of end of month);
- The core set of financial soundness indicators by individual financial institution, including the 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. dollar and Liberian dollar terms, on an aggregated basis (including both recurrent and capital expenditure) (monthly, within three weeks after the end of the month);
- CBL expenditures on a commitment basis (monthly, within three weeks after the end of the month);
- The report on foreign exchange sales/purchases by the CBL through foreign exchange auctions held by the CBL (weekly), including U.S. dollars offered and sold, the auction rate, the number of accepted and rejected bids, the total value of bids and of rejected bids;
- Regular sale of U.S. dollars by the Ministry of Finance to the CBL, including amount, date, and rate of exchange (monthly, within three 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 three 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 non-commercial 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).

16. 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](mailto:mtharkur@imf.org)) with copies to the local IMF economist, Mr. Deline (at [adeline@imf.org](mailto:adeline@imf.org)) for further 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.



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INTERNATIONAL MONETARY FUND

LIBERIA

**Staff Report for the 2008 Article IV Consultation, First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Financing Assurances Review, and Request for Waiver and Modification of Performance Criteria—Informational Annex**

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

Approved by Michael Atingi Ego and Patricia Alonso-Gamo

November 24, 2008

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**Appendix I. Liberia—Relations with the Fund**  
(As of October 31, 2008)

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

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>% Quota</b>
Quota	129.2	100.0
Fund holdings of currency	472.0	365.3
Reserve position in Fund	0.0	0.0

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>% Allocation</b>
Net cumulative allocation	21.0	100.0
Holdings	7.2	34.3

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>% Quota</b>
PRGF Arrangements	207.3	160.4
Extended Arrangements	342.8	265.3

**V. Latest Financial Arrangements:**

	Approval	Expiration	Amount Approved	Amount Drawn
<u>Type</u>	<u>Date</u>	<u>Date</u>	<u>(SDR Million)</u>	<u>(SDR Million)</u>
EFF	03/14/2008	03/13/2011	342.8	342.8
PRGF	03/14/2008	03/13/2011	239.0	207.3
Stand-By	12/07/1984	12/06/1985	42.8	8.5

**VI. Projected Payments to the Fund<sup>1</sup> (Expectation Basis)<sup>2</sup>**

(SDR million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Principal					57.13
Charges/interest	<u>4.04</u>	<u>12.39</u>	<u>12.39</u>	<u>12.39</u>	<u>12.10</u>
Total	4.04	12.39	12.39	12.39	69.23

<sup>1</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

<sup>2</sup> This schedule represents all currently scheduled payments to the IMF, including repayment expectations and repayment obligations. The IMF Executive Board can extend repayment expectations (within predetermined limits) upon request by the debtor country if its external payments position is not strong enough to meet the expectations without undue hardship or risk.

**Projected Payments to the Fund (Obligation Basis)<sup>3</sup>**

(SDR million; based on existing use of resources and present holdings of SDRs):

		<u>Forthcoming</u>			
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Principal					28.56
Charges/interest	<u>4.04</u>	12.39	<u>12.39</u>	<u>12.39</u>	<u>12.25</u>
Total	4.04	<u>12.39</u>	12.39	12.39	40.81

**VII. Implementation of HIPC Initiative:****Enhanced Framework****A. Commitment of HIPC assistance**

Decision point date	Mar 2008
Assistance committed by all creditors (US\$ million) <sup>4</sup>	2,845.5
Of which: IMF assistance (US\$ million)	700.2
(SDR equivalent in millions)	428.1
Completion point date	Floating

**B. Disbursement of IMF assistance (SDR million)**

Assistance disbursed to the member	15.0
Interim assistance	15.0
Completion point balance	--
Additional disbursement of interest income <sup>5</sup>	--
Total disbursements	15.0

**VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable**

<sup>3</sup> This schedule is not the currently applicable schedule of payments to the IMF. Rather, the schedule presents all payments to the IMF under the illustrative assumption that repayment expectations – except for SRF repayment expectations – would be extended to their respective obligation dates by the IMF Executive Board upon request of the debtor country. SRF repayments are thus only shown on their current expectation dates, unless already converted to an obligation date by the IMF Executive Board.

<sup>4</sup> Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

<sup>5</sup> Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

## IX. Safeguards Assessment

An update safeguards assessment of the Central Bank of Liberia (CBL) was completed in August 2008. The update found that while the CBL had largely addressed the measures to increase transparency recommended by the 2007 interim safeguards assessment, significant risks exist in the control framework of the bank. Of particular concern during the course of the assessment was a delay in the assumption of co-signing authority for CBL financial matters by the Fund-supported Special Advisor. The assessment also found that internal audit capacity was weak and that the Audit Committee was not exercising effective oversight of CBL financial reporting, audit, and control systems. A priority measure to utilize the services of an external auditor to conduct a series of special audits was completed in August 2008 and it indicated that the monetary data submitted by the CBL are accurate and in compliance with TMU definitions, and that progress has been made to improve some aspects of the overall control environment, including the assumption of co-signing authority by the Special Advisor. The CBL has also made progress in implementing other safeguards recommendations, including drafting investment guidelines for CBL financial resources.

## X. Exchange Rate Arrangement

Liberia maintains an exchange rate system that is free of restrictions on payments for current and 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. Liberia's exchange rate at end-October 2008 was L\$63.5=US\$1.

## XI. 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.

## XII. Technical Assistance

<u>Subject</u>	<u>Department</u>	<u>Date</u>
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 exchange auctions, banking supervision,	MFD	Aug. 2004

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: central bank accounting	MCM	Oct. 2007
Mission: central bank accounting	MCM	Mar./Jun. 2008
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 (resigned in Feb. 2007)	FAD long-term	Nov. 2006
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: customs administration	FAD	Jan. 2008
Mission: revenue administration/tax administration	FAD	Apr. 2008
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

### **XIII. Resident Representative**

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

**Appendix II. Liberia—Joint World Bank-IMF Work Program, 2008-09**  
(As of October 31, 2008)

Title	Products	Provisional timing of mission	Expected delivery date
<b>A. Mutual information on relevant work programs</b>			
1. World Bank work program in next 12 months	1. Finalize Joint Country Assistance Strategy with African Development Bank	Mission already completed (June 2008)	November 2008
	2. Draft regulations and user manuals for the Public Procurement and Concessions Act	July – November 2008	November 2008
2. IMF work program in next twelve months	1. 2008 Article IV consultation, and First Review of PRGF-EFF Program.	September 22-October 6, 2008	December 2008
	2. Cross-country experience with de-dollarization	Selected issues paper prepared as part of 2008 Article IV mission.	December 2008
	3. Second Review of PRGF-EFF Program and joint DSA	March 2009	May 2009
3. Work jointly performed	Assist authorities with developing decentralization strategy.	Joint mission to be decided	March 2009
	Assist authorities with modernization of tax administration through ongoing advice (Fund) and preparation of automation (WB)		continuous
<b>B. Requests for work program inputs</b>			
Fund request to the Bank	1. Prepare manuals for the new 2008 Public Financial Management Law		
	2. Provide input into joint DSA		April 2009
Bank request to Fund	1. Regular updates of performance under the Fund-supported program		Ongoing
	2. Regular updates of macroeconomic projections, including as input to the rice sector policy note		Ongoing



### **Appendix III. Liberia—Statistical Issues**

1. Data provision has serious shortcomings that significantly hamper surveillance. There are serious shortcomings in the national accounts and balance of payments, which stem mainly from lack of source data, limited scope, and appropriate timeliness; these shortcomings have required Fund staff to estimate historical data in these areas.
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 GDDS Project for Anglophone Africa, 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 since October 24, 2005.

#### **Real sector statistics**

4. National accounts data are estimates as opposed to statistics compiled on the basis of a standard statistical methodology. Estimates of GDP by production and by sector components 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 Ministry of Planning and Economic Affairs (MPEA) and LISGIS. Estimates for GDP by expenditure are not available. Consequently, there is a high degree of uncertainty regarding estimates of the level and growth rate of GDP, sectoral components, and all ratios to the GDP. STA urges that remedial measures be included in the agenda for discussion with the authorities with close monitoring of implementation. Improvements in data quality would require: (i) the establishment of a national business register; (ii) the resumption of an annual Establishment Survey and National Accounts Questionnaire for manufacturing, mining, utilities and agriculture; and, (iii) a Household Income and Expenditure Survey is needed to develop reliable data on informal household sector production activities as well as on expenditures by households.

#### **Price statistics**

5. The CPI has been compiled since October 2005 jointly by the Central Bank of Liberia (CBL) and LISGIS. 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. In January 2007, the authorities 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). A further review of weights should

take place once the results of the Core Welfare Indicators Questionnaire are available. The June 2007 CPI technical assistance mission provided recommendations on the implementation of the review of weights. The reference base retained for the new series was set as December 2005=100.

### **Government finance statistics**

6. The Ministry of Finance (MoF) regularly provides AFR with monthly disaggregated data on government revenue and on government current and capital expenditure on a cash and commitment basis. There is scope, for improving the quality of the government finance statistics, including reporting on financing items and expenditures on domestic debt and arrears. A 2006 STA mission noted several issues regarding data quality, including problems in reporting customs revenue, problems in revenue classification, and lack of budget codes for fiscal reporting. The authorities plan to adopt the *GFSM 2001* methodology, and additional requests for technical assistance could be forthcoming. The authorities have not reported data for publication in the *Government Financial Statistics Yearbook* and in the *IFS*.

### **Monetary and financial statistics**

7. The CBL has made progress in adopting the statistical methodology recommended in the IMF's *Monetary and Financial Statistics Manual*. In November 2007, an STA monetary and financial statistics (MFS) mission assisted the CBL to develop a framework for compiling standardized report forms (SRFs) for reporting monetary data to the IMF and resolve problems in the data reported by some commercial banks. 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. The report of the Special Audit of the CBL in August 2008 proposed a number of steps to improve the accounting data, including the reporting of arrears. An MFS follow-up mission planned for 2009 will work with the new source data for the central bank to update the SRFs for publication in the *International Financial Statistics Supplement on Monetary and Financial Statistics*.

### **Balance of payments statistics and external debt**

8. 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, MPEA, and the MoF. The CBL is responsible for compiling balance of payments statistics 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. 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 February 2008, an STA long-term advisor in balance of payments statistics was assigned to the CBL to assist in improving balance of payments data. With the support of STA, the authorities are developing a comprehensive balance of payments data collection program to address the paucity of primary source data. In an effort to reconcile the significant discrepancies in international trade statistics (ITS) reported by various agencies, the CBL has also initiated work on a new ITS database aimed at incorporating new data sources. The CBL has completed a census of foreign direct investment enterprises in preparation for an FDI survey. The authorities have reported annual balance of payments data for the period from 2004 to 2007 for publication in *IFS* and the *Balance of Payments Statistics Yearbook*.

9. Significant gaps exist in the records of external public debt, particularly those related to bilateral and commercial creditors. The 2006 STA mission identified inadequate staffing and poor coordination with data providers as key impediments to improving balance of payments and external debt statistics. A task force comprising staff seconded from the CBL, MoF, MPEA, General Auditing Office 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 attended 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 October 31, 2008

	Date of latest observation	Date received	Frequency of Data <sup>5</sup>	Frequency of Reporting <sup>5</sup>	Frequency of publication <sup>5</sup>
Exchange Rates	Oct. 2008	Nov. 2008	D	M	B
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	Sep. 2008	Oct. 2008	M	M	B
Reserve/Base Money	Sep. 2008	Oct. 2008	M	M	B
Broad Money	Sep. 2008	Oct. 2008	M	M	B
Central Bank Balance Sheet	Sep. 2008	Oct. 2008	M	M	B
Consolidated Balance Sheet of the Banking System	Sep. 2008	Oct. 2008	M	M	B
Interest Rates	Sep. 2008	Oct. 2008	M	M	B
Consumer Price Index	Sep. 2008	Oct. 2008	M	M	B
Revenue, Expenditure, Balance and Composition of Financing <sup>2</sup> – General Government <sup>3</sup>	Aug 2008	Sep 2008	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>2</sup> – Central Government	Aug 2008	Sep 2008	M	M	B
Stocks of Central Government and Central Government-Guaranteed Debt	Jun. 2007	Nov 2007	A	I	I
External Current Account Balance	2007	Sep. 2008	A	I	I
Exports and Imports of Goods and Services	2007	Sep. 2008	M	Q	B
GDP/GNP	N/A	N/A	N/A	N/A	N/A
Gross External Debt	Jun. 2007	Nov. 2007	Q	B	B
International Investment Position <sup>4</sup>					

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered.

<sup>2</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>3</sup> The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.

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INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No. 09/03  
FOR IMMEDIATE RELEASE  
January 12, 2009

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Executive Board Concludes Article IV Consultation with Liberia**

On December 22, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Liberia.<sup>1</sup>

### **Background**

Over the past three years the Liberian authorities have achieved significant progress in laying a sound foundation to support the country's postwar reconstruction and sustain poverty-reducing growth. Liberia's Poverty Reduction Strategy Paper (PRSP) lays out a comprehensive strategy for sustaining higher growth by maintaining macroeconomic stability, attracting private investment, and improving infrastructure, governance and security. Guided by its PRSP, Liberia has made progress in strengthening public revenues and public finance management, revising its institutions to improve governance, and strengthening the banking sector. The authorities' efforts have been supported by considerable financial support from the international community—donor support is estimated at US\$85-\$100 per capita—and passage of key reforms by the Liberian legislature.

A key achievement has been the normalization of Liberia's relations with the international community. Long-standing arrears to the World Bank and African Development Bank were cleared in December 2007, and in March 2008, to the IMF. In April 2008, the authorities also agreed on a comprehensive rescheduling of outstanding obligations to the Paris Club group of creditors. The authorities are continuing discussions with other official and private creditors on

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

rescheduling Liberia's obligations consistent with the requirements of the Enhanced Heavily Indebted Poor Countries Initiative.

Economic activity in Liberia has been solid in 2008 despite the significant impact of large food and fuel price increases; real GDP growth is estimated at about 7 percent (it was 9½ percent in 2007). Growth in 2008 was supported in particular by continued recovery in agriculture and healthy growth in construction services, as well as by the resumption of forestry-related activities. However, year-on-year inflation surged, peaking at 26½ percent in August before declining to 20 percent in September, mostly on account of higher food and fuel prices. These developments also widened Liberia's trade deficit by about 17 percentage points of GDP to 57 percent of GDP.

Responding to these developments is particularly challenging for Liberia given that around 64 percent of Liberians live below the minimum poverty line, the government has no access to new borrowing, its international reserves equal less than one month's imports, and monetary policy implementation is limited by a very high level of dollarization. To deal with this, the government developed a comprehensive food security strategy designed to: (i) mitigate the impact of domestic rice price increases and ensure domestic supply; (ii) maintain access to food for vulnerable households through safety nets; and (iii) promote domestic production.

Liberia improved its fiscal management further in 2007/08 (July-June). Government revenue, boosted by the continued economic recovery and better revenue administration, increased by 36.7 percent over 2006/07, and exceeded the budget target by 5.7 percent. Expenditure, which lagged revenues for most of the year (in part due to delayed passage of the budget), rose sharply in June, resulting in overall spending of US\$203.3 million against total appropriations of \$209.4 million, inclusive of a US\$10 million supplementary budget late in the fiscal year. The government's balance at the Central Bank of Liberia (CBL) increased to US\$51.2 million from US\$40 million on account of the higher revenues and moderate underspending, as well as a small amount of checks issued but not yet cashed.

The Liberian dollar/U.S. dollar exchange rate has been relatively stable in 2008, depreciating by 3.1 percent in the 12 months through October. This is consistent with Liberia's current monetary policy which targets exchange rate stability in the recognition that in its highly dollarized and open economy, the foreign exchange market is the main channel through which monetary impulses affect prices. The real effective exchange rate (REER) has also been relatively stable since 2004.

### **Executive Board Assessment**

While prospects for 2009 remain favorable, Directors noted the downside risks from a sharp fall in global growth or in world commodity prices, and from potential shortfalls in donor financing. Also, inflation remains high and the external current account deficit is large. Directors highlighted the significant medium-term challenges facing Liberia, including the need to diversify the economy—and, in particular, to develop the agricultural sector to enhance food security.

Directors called for continued fiscal prudence, and welcomed in this regard the authorities' commitment to a balanced cash budget, with zero borrowing. They noted the projected continued strong revenue growth and sharply higher current spending in 2009 and 2010. In view of Liberia's large reconstruction needs, Directors reiterated the importance of current expenditure restraint, effective cash management, and the availability of sufficient grant financing. They called for the identification of contingent expenditure cuts to cover any revenue shortfalls.

Directors commended the authorities' comprehensive food security strategy that was developed in response to higher world commodity prices. They supported the focus on securing donor financing for measures to mitigate the impact on the poor, and on policies to stimulate domestic food production.

Directors welcomed the authorities' commitment to strengthening public financial management, improving governance, and establishing an institutional framework to combat corruption. They applauded the creation of the Liberia Anti-Corruption Commission and the recommencement of public auditing by the General Auditing Commission, and called for continued donor support of these initiatives. They also stressed the importance of adopting a comprehensive Public Financial Management law. Particularly important will be to strengthen budget planning and execution and debt management in the context of a medium-term fiscal framework.

Directors supported efforts to strengthen central bank operations and improve the monetary policy framework. They agreed that monetary policy is appropriately focused on maintaining broad exchange rate stability in order to reduce inflationary pressures. Nevertheless, in view of the low level of foreign exchange reserves, they believed that the authorities should not target a specific level for the exchange rate. Directors urged continued progress in implementing the recommendations of the safeguards assessment report on the central bank.

Directors considered that dollarization has served Liberia well by helping to stabilize the post-conflict economy. They saw no urgency in reversing dollarization, and stressed that efforts to do so over the medium term should be market-based, and focus on implementing credible policies—including strengthening the banking sector and the payments system. In this regard, Directors commended the banking sector reforms being implemented, and looked forward to continued progress in this area. To address the possible impact of the recent dollar appreciation on Liberia's export competitiveness, Directors encouraged the authorities to press ahead with rebuilding Liberia's infrastructure and reforms to support private sector development.

Directors stressed that continued steadfast pursuit of sound policies and reforms, complemented by adequate external financial and technical assistance, will be crucial to achieving the HIPC completion point and Liberia's Millennium Development Goals. Acknowledging the good progress being made towards meeting the completion point triggers, a number of Directors took positive note of the authorities' desire to reach the HIPC completion point in 2009.



Directors noted that data deficiencies hamper surveillance and monitoring of program implementation. They welcomed the finalization of Liberia's medium-term national statistical development plan, and the ongoing efforts to improve the national account statistics.

The next Article IV consultation with Liberia is expected to be held in accordance with the relevant Executive Board decision on the consultation cycle for members with Fund arrangements.

**Public Information Notices (PINs)** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The [staff report](#) (use the free [Adobe Acrobat Reader](#) to view this pdf file) for the 2008 Article IV Consultation with Liberia is also available.

**Liberia: Selected Economic and Financial Indicators: 2004-08**

	2004 Est.	2005 Est.	2006 Est.	2007 Est.	2008 Proj.
(Annual percentage change)					
National income and prices					
Real GDP	2.6	5.3	7.8	9.5	7.1
Consumer prices (annual average)	3.6	6.9	7.2	11.4	17.9
Nominal GDP (millions of U.S. dollars)	458.5	528.3	611.6	734.6	870.6
GDP deflator (U.S. dollars)	9.4	9.4	7.4	9.7	10.7
External sector					
Exports of goods	-1.4	6.3	41.7	28.6	24.9
Imports of goods	74.3	37.3	44.0	13.0	52.5
Terms of trade	4.9	3.9	49.7	-10.7	-2.6
Exchange rate (Liberian dollars per U.S. dollar, end of period)	54.5	56.5	59.5	62.5	...
Money and banking (Liberian dollar terms)					
Reserve money <sup>1</sup>	31.4	27.2	23.9	26.7	24.2
Broad money <sup>2</sup>	49.3	35.7	34.4	40.1	43.1
(Percent of GDP)					
Central government					
Total revenue and grants	13.6	16.3	15.0	22.0	25.8
of which: tax revenue	12.9	16.1	14.8	21.8	25.0
Total expenditure and net lending	11.6	15.5	12.9	18.3	24.6
of which: current expenditure	10.8	13.3	11.8	15.8	21.6
capital expenditure	0.9	2.2	1.1	2.5	3.0
Overall fiscal balance (cash basis)	2.0	0.8	2.1	3.8	1.2
External sector					
Current account balance, including grants (deficit, -)	-19.4	-42.3	-30.3	-37.2	-40.0
Current account balance, excluding grants (deficit, -)	-169.7	-185.2	-216.2	-186.2	-160.7
Trade balance (deficit, -)	-25.2	-36.4	-45.7	-39.5	-57.4
Exports	23.4	21.6	26.5	28.3	29.9
Imports	-48.7	-58.0	-72.1	-67.9	-87.3
Public sector external debt outstanding (medium and long term)	988.6	876.8	822.8	571.0	490.7
(Millions of U.S. dollars, unless otherwise indicated)					
External debt arrears	4,534	4,632	5,032	4,195	4,272
Current account balance including grants (deficit, -)	-89	-224	-185	-274	-349
Trade balance (deficit, -)	-116	-192	-279	-290	-500
Gross official reserves	5.3	7.8	46.2	85.3	96.4
(months of imports of goods and services)	0.1	0.1	0.4	0.7	0.7

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

<sup>1</sup> Liberian dollar currency in circulation and commercial bank reserves (denominated in Liberian dollars) held at the central bank.

<sup>2</sup> Liberian currency outside banks, plus demand, time, and savings deposits in Liberian and U.S. dollars.

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Press Release No. 08/340  
FOR IMMEDIATE RELEASE  
December 22, 2008

International Monetary Fund  
Washington, D.C. 20431 USA

## **IMF Executive Board Completes First Review under PRGF Arrangement for Liberia and Approves US\$10.8 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Liberia's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review makes SDR 7 million (about US\$10.8 million) available to Liberia, which would bring total disbursements under the arrangement to SDR 214.26 million (about US\$331 million).

The Executive Board also granted a waiver for the non-observance of a structural performance criterion related to the adoption of legislation by end-June 2008 to merge the Bureau of the Budget into the Ministry of Finance, following passage of the legislation in September 2008. The Board also completed the country's financing assurances review under the arrangement.

The three-year PRGF arrangement for Liberia was approved by the Executive Board on March 14, 2008 (see [Press Release No 08/52](#)) in an amount equivalent to SDR 239.02 million (about US\$369.3 million).

Following the Executive Board's discussion, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, said:

“The Liberian authorities have implemented prudent fiscal and monetary policies and structural reforms under their IMF-assisted program to support postwar reconstruction and economic recovery. Important measures have been taken to strengthen public financial management and fight corruption.

“Sound policies have contributed to strong economic growth, rising foreign direct investment, a build-up of net international reserves, and broad exchange rate stability. Economic prospects remain favorable. Nevertheless, the current global slowdown could negatively affect foreign direct investment, exports, and remittance flows.

“The authorities responded appropriately to the challenges posed by higher fuel and food prices in 2008. Their comprehensive food security strategy focuses on raising domestic food production and securing donor resources to finance social safety net programs. Continued donor support will be essential to ensure the success of the strategy, in view of the limited availability of public resources.

“The 2008/09 (July-June) government budget assumes further strong revenue growth and continues to limit spending to available cash resources. In this context, it will be important for the authorities to utilize prioritized monthly cash plans and to identify expenditures that could be reduced if revenue shortfalls were to materialize.

“Monetary policy focuses on maintaining a broadly stable exchange rate against the US dollar to contain inflationary pressures. While this policy remains appropriate given the high level of dollarization, the authorities are advised not to target a specific level for the exchange rate, in view of the still low level of foreign exchange reserves.

“The authorities’ policies for the second year of the economic program are consistent with Liberia’s Poverty Reduction Strategy Paper. They aim to build on progress to date in strengthening public financial management, the monetary and financial sectors, and governance, while improving data availability and quality,” Mr. Lipsky said.

**Statement by Samuel Itam, Executive Director for Liberia**  
**December 22, 2008**

1. The Liberian authorities are appreciative of the Fund's continuous engagement and value their support under the Poverty Reduction and Growth Facility (PRGF) arrangement. The authorities also appreciate the candid exchange of views with staff during discussions for the 2008 Article IV Consultation and the First Review under the PRGF arrangement.

**Recent economic developments**

2. Liberia's economy has continued with its robust growth in 2008, albeit slower than in the previous year. Real GDP growth is estimated at about 7 percent in 2008 compared to 9.5 percent last year, reflecting broad-based recovery in key sectors coming from low-base levels of production, although output in agriculture and mining was lower than projected. Inflation year-on-year increased in 2008, chiefly because of the surge in global food and fuel prices, which also contributed to the widening of the external trade deficit.

3. The surge in international price of rice, around 120 percent in the twelve months to September 2008, poses a severe risk to food security in a country where rice is the staple and is mostly imported. To mitigate the impact of these shocks, the Liberian authorities implemented a number of measures to ensure food security and to ameliorate the impact of the higher prices on vulnerable households. They also provided a limited fuel subsidy to the public transit authority in Monrovia, while maintaining a policy of full pass through of all international fuel prices to the domestic market. These limited measures are considered essential for a country where over 75 percent of the population live below the poverty line.

**Performance under the Poverty Reduction and Growth Facility (PRGF)**

4. The Liberian authorities have continued to show their strong commitment to implementing the policies intended in the PRGF-supported program, despite severe capacity constraints. Performance through June 2008 was satisfactory, and the program remains on track. All quantitative targets were achieved, and all structural benchmarks were met except one -- adopting the legislation to merge the Bureau of the Budget with the Ministry of Finance an end-June criterion that was met in September.

5. Fiscal management improved in 2007/08 with the authorities' continued implementation of a cash-based budget. During the period, the authorities redoubled their efforts to mobilize revenue and, helped by the continued robust economic performance revenue collection rose, by almost 40 percent. Several measures were also taken to improve budget execution, including strengthening the procurement capacity of line ministries.

6. The authorities consider that given the high degree of dollarization and openness of the economy, maintaining relative stability of the Liberian dollar/US dollar exchange

rate remains an essential policy anchor to keep domestic inflation under control. The Central Bank of Liberia (CBL) has performed well on its objective to build up the net foreign exchange position, which increased to US\$47 million in September from US\$35 million at end-2007. Liberia's banking sector has also remained resilient to the contagion effects, despite the global financial turbulence, mainly as a result of reforms to the banking system, including strengthening of bank supervision, increasing the regulatory capital adequacy ratio and the minimum capital requirements.

### **HIPC completion point**

7. Liberia has made a considerable progress toward achieving a number of completion point triggers. These include the finalization of the Poverty Reduction Strategy Paper (PRSP) in April 2008, satisfactory performance under the PRGF-supported program, and a revised investment code, which is awaiting legislative approval in January 2009. The recent establishment of an independent Anti-Corruption Commission would further consolidate gains made in the institutional and governance environment. In addition, public reporting of extractive industry financial flows, consistent with Extractive Industries Transparency Initiative (EITI) criteria, and a finalized comprehensive PFM awaiting legislative approval in early 2009 indicate the urgency, determination and commitment of the authorities to achieve all the HIPC triggers as soon as possible.

8. While staff considers that completion point could be reached by 2010, as had been assumed at the decision point, the authorities are of the view that given the progress made in key areas of completion point triggers there is a need to consider reaching completion point in 2009. This would provide a substantial fiscal space and be consistent with the recent sense of urgency and flexibility on the part of the Executive Board in assisting countries seeking support during this difficult period of the ongoing financial crisis and global economic slowdown.

### **Sustained donor support in the face of borrowing constraint**

9. In spite of the recent growth trends, the incidence of poverty remains high and several aspects of the social situation remain dire. The Liberian authorities therefore recognize that improving health and education, as well as the basic infrastructure such as roads, needs to be pursued with urgency. However, they are aware that given limited resources, as well as the conditionality of zero borrowing, rehabilitating the infrastructure and improving basic services would remain a key and difficult challenge in the period ahead. It is in this regard that they appeal to the international community to continue with their support to enable them to consolidate the reform program and achieve sustainable growth. In addition, the authorities are of the view that modest borrowing at highly concessional level and ring-fenced, targeted at projects with substantial economic rates of return, may be necessary in the absence of full-donor funding.

### **Structural reforms**

10. Over the past three years, the Liberian authorities have made commendable progress in carrying out key reforms, including laying a sound foundation to support the

country's postwar reconstruction and satisfactory growth. In order to consolidate these gains, my Liberian authorities are determined to increase their efforts to implement their structural reform agenda to boost international competitiveness. Key elements of this agenda include addressing the inadequate infrastructure referred to earlier and undertaking institutional reforms to improve the business environment for the private sector. This is clearly laid out in Liberia's PRSP, which details a comprehensive strategy for sustaining higher growth by maintaining macroeconomic stability; attracting private investment; and improving infrastructure, governance and security.

11. In this context, the Liberian authorities believe that investing in physical infrastructure, particularly roads, and well functioning ports to facilitate transportation of exports such as timber, iron ore, and cocoa is key to improving competitiveness and sustaining growth. Guided by its PRSP, Liberia has made progress in other key reform areas such as strengthening public finance management, including raising public revenues, improving institutional governance, and strengthening the banking sector. The authorities are also committed to adopting measures aimed at achieving accountable and transparent exploitation of their natural resource wealth, including adoption of specific measures that will further deepen their commitment to the EITI principles.

12. Strengthening the institutional debt management capacity at the national level, particularly at the Ministry of Finance, is considered a key priority by the authorities to avoid recurrence of unsustainable debts accumulation in the future. In this regard, the authorities have established a Debt Management Unit, assigned with the responsibility for recording and managing public debt statistics, reviewing loan documents, and assessing concessionality levels of new borrowing.

13. The monetary authority is committed and has adopted measures to strengthen the current monetary policy framework. Efforts in this regard, include publicizing the current policy framework, and enhancing the efficiency and transparency in the foreign exchange market through setting of auction rules and regulations. The authorities appreciate staff's advice on de-dollarization. In this context, they are considering market-based measures to support the demand for Liberian dollar, including increase in the use of the Liberia dollar in government revenue and expenditure operations.

14. The Central Bank of Liberia has made substantial progress in addressing internal financial control weaknesses identified in the Fund's 2007 interim safeguard assessment as well as with the implementation of the IFRS new accounting framework. As we may be aware, the transition to the IFRS is a complex task -- even for advanced economies -- and particularly challenging for Liberia, a post-conflict country. However, the updated safeguard assessment conducted in early 2008 demonstrates progress made, including the implementation of measures to increase transparency, and adoption of investment guidelines. Measures to strengthen general control environment have been adopted, including oversight of CBL financial reporting, co-signing authority by the Special Advisor, and audit and control systems by the Audit Committee, and are being implemented. The CBL remain also committed to a cash-based balanced budget for 2009.



15. As part of the resolution strategy for external debt overhang, the authorities are engaging all creditors. Recently, they agreed on a comprehensive rescheduling of outstanding obligations to the Paris Club group of creditors. Discussions with other official and private creditors are also bearing positive fruits as attested by some creditors who agreed to forgive Liberia's all outstanding claims, while others have agreed to grant debt relief on terms fully consistent with the HIPC Initiative. Liberia is also looking forward to reaching an agreement under the World Bank's Debt Reduction Facility in early 2009.

### **Conclusion**

16. The Liberian authorities remain mindful of the challenges ahead, and are committed to proceed with their reform agenda to rebuild the economy and intensify efforts to reduce poverty. It is in this regard that they are requesting that the HIPC completion point be reached in 2009 to provide urgent support in meeting these challenges. My authorities appreciate the continued support of Management, the Executive Board and the development partners in this regard.