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Liberia: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver and Modification of Performance Criteria, and Financing Assurances Review—Staff Report; Staff Supplement; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Liberia

In the context of the second review under the three-year arrangement under the Poverty Reduction and Growth Facility, request for a waiver and modification of performance criteria, and the financing assurances review for Liberia, the following documents have been released and are included in this package:

- The staff report for the Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver and Modification of Performance Criteria, and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on February 25, 2009, 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 April 22, 2009. 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 staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A staff statement of May 6, 2009, updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its May 6, 2009, discussion of the staff report that completed the review.

- A statement by the Executive Director for Liberia.

The documents listed below have 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 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

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver and Modification of Performance Criteria, and Financing Assurances Review

Prepared by African Department
(In consultation with other departments)

Approved by Thomas Krueger and Dhaneshwar Ghura

April 22, 2009

- Mr. Lane (head), Mr. Gottschalk and Ms. Dlamini-Kunene (all AFR), Mr. Kitili (SPR), Mr. Kloeden (FAD), and Mr. Tharkur (Resident Representative) visited Monrovia February 12–25, 2009 to conduct discussions for the second review under the PRGF. Ms. Mannathoko (OED) attended discussions.

- The mission met with President Johnson-Sirleaf, Minister of Finance Ngafuan, other senior government officials, Central Bank Governor Mills Jones, representatives of the legislature, private sector, civic society and development partners.

- Liberia cleared its arrears of SDR 543 million to the Fund on March 14, 2008. The Executive Board approved three-year arrangements under the PRGF and the Extended Fund Facility totaling SDR 582 million (450 percent of quota). Liberia remains current on its Fund obligations. The last Article IV consultation and first program review were concluded on December 22, 2008. SDR 7 million (5.4 percent of quota) becomes available upon completion of the second Review.

- The authorities' letter of intent and supplementary memorandum of economic and financial policies are in Attachment I.

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EXECUTIVE SUMMARY

- **The global recession is slowing Liberia's postwar economic recovery**. The drop in demand and commodity prices is adversely affecting investment and exports in some key sectors. However, there is little evidence yet that the financial sector is adversely affected although there are emerging risks.

- **There is limited room for counter-cyclical fiscal action due to high debt levels while monetary policy is constrained by high dollarization**. However, the authorities remain strongly committed to cash-based budgeting.

- **The longer-term outlook remains bright**. In the mining sector, investment continues and iron ore exports are expected to resume with global economic recovery. Interest in forestry and export agriculture remains high.

- **The program remains on track**. Most quantitative and structural performance criteria (PCs) in the period through end-December 2008 were met. Staff support the authorities' request for waivers of non-observance of the PCs on domestic arrears and Central Bank of Liberia (CBL) spending at end-December 2008 on the basis that the deviations were temporary, and for delays in achieving the end-September 2008 structural PC on the Liberia Anti-Corruption Commission that were also temporary.

- **Structural reforms continue to advance.** The authorities have stepped up their efforts to strengthen the Liberia Anti-Corruption Commission and are close to finalizing important legislation on public financial management and tax reform. The authorities wish to convert structural PCs remaining for 2009 into benchmarks consistent with the new policy on structural conditionality.

- **Staff supports the authorities' request for a limited amount of highly concessional borrowing under the program for a critical infrastructure project provided appropriate safeguards are in place**.

- **The global recession clearly poses downside risks for program objectives particularly for investment, employment and growth.** However, the authorities remain strongly committed to full program implementation.

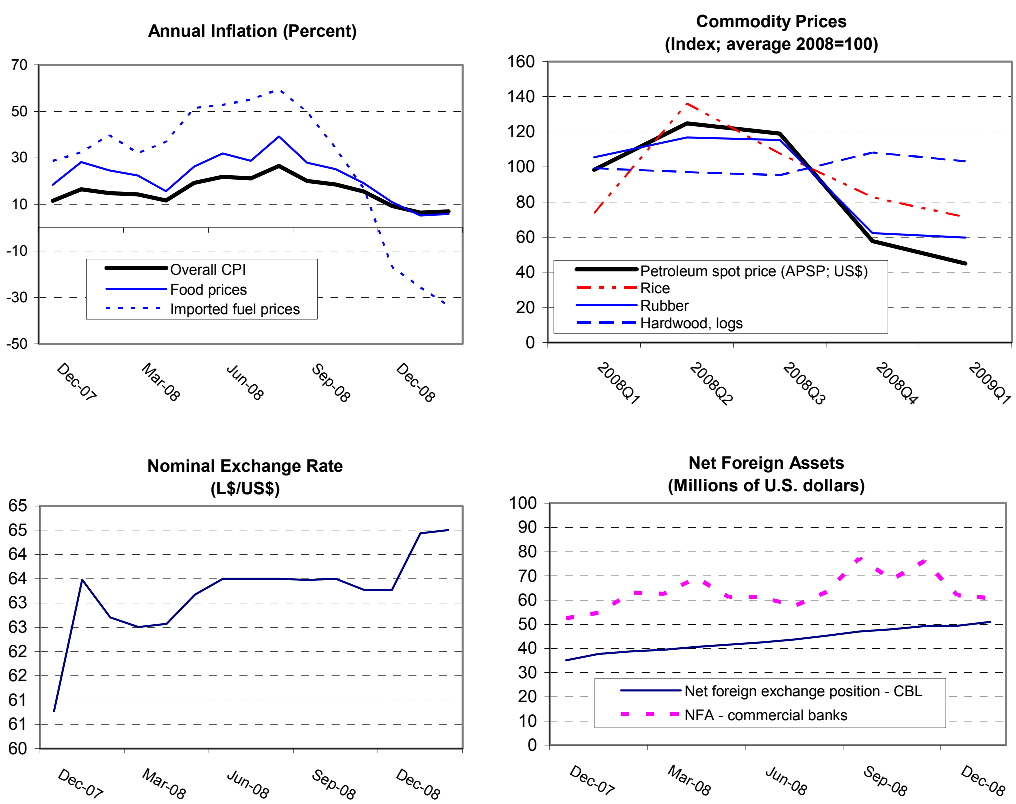
I. Macroeconomic Developments and Performance Under the Program

A. Impact of the Global Financial Crisis

1. **Lower prices and global demand for commodities are fueling disinflation and adversely affecting production in some key sectors** (Figure 1 and Tables 1–2). Although real GDP growth for the year 2008 as a whole is estimated to be at the programmed level of 7.1 percent, activity weakened in the fourth quarter with a decline in rubber production—Liberia's main export product. Diamond exports began to decline from end-year. There is also some evidence of lower remittances through February. At the same time, consumer price inflation fell to 7 percent in February (year on year) from a peak of 27 percent six months earlier as food and fuel prices reversed.

2. **The underdeveloped Liberian financial sector has not been directly affected by the global financial crisis.** Bank liquidity remains high with liquid assets accounting for more than half of total assets and regulatory capital remains well above prudential limits. Moreover, there are no signs of capital outflows: the exchange rate remains broadly stable, while foreign exchange reserves continued to rise (Table 3).

Figure 1. Liberia: Recent Economic Developments, 2007–09



Sources: Liberian authorities; and Fund staff estimates.

B. Performance Under the Program Remains Good with Minor Deviations

3. **The program continues to be implemented satisfactorily, but two quantitative targets were missed**: domestic wage arrears of US$6.5 million accrued in July 2008 because of late passage of the budget, and CBL spending was US$0.3 million above the end-2008 ceiling because of better than expected revenues leading to an increase of capital spending (Text Table).[1]

Liberia: Performance Against Program Targets for the Second Review

Quantitative Performance Criteria	
Floor on revenue collections	Met
Zero floor on fiscal balance	Met
Ceiling on noncash tax/duty payments	Met
Ceiling on new domestic borrowing	Met
Ceiling on new external borrowing	Met
Ceiling on new domestic arrears	Not met
Ceiling on new external arrears	Met
Ceiling on CBL expenses	Not met
Ceiling on CBL payment arrears	Met
Floor on CBL cash based budget balance	Met
Floor on CBL net foreign exchange position	Met
Structural Performance Criteria	
Establish a functioning Liberia Anticorruption Commission, consistent with Liberia's anticorruption legislation.	Met with delays
Submit a draft PFM law to the legislature.	Met

4. **The end-September 2008 structural target on the establishment of a functioning anti-corruption commission was met with delay due to late passage of the enabling Act and financing issues**. The authorities have since put in place measures that enabled the Commission to exercise its core functions of education, prevention and enforcement (MEFP ¶13).

C. Political Context

5. The political context is stable. The security situation in Liberia remains relatively quiet, but continues to be characterized by an underlying fragility in part owing to weak national security institutions and high youth unemployment.

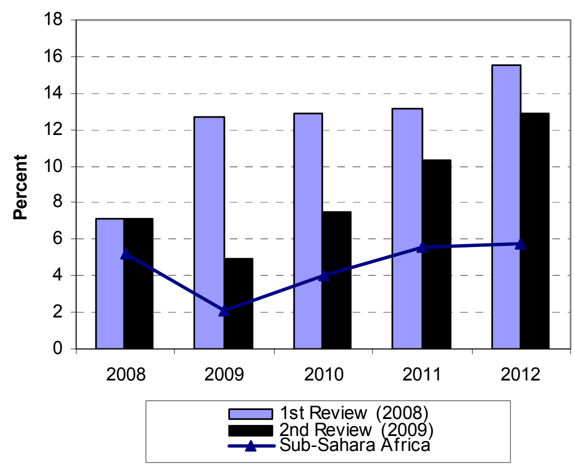
[1] In the First Review under the PRGF the PC on the CBL expenditure ceiling was removed from the 2009 program with performance assessed solely against the CBL budget balance.

II. Program Discussions

A. Macroeconomic Framework

6. **The global recession is slowing Liberia's export-led economic recovery**. Some downside risks identified by staff and the authorities in 2008 have materialized: the projected acceleration of output growth in the period 2009–11 based on an expansion of mining and timber production is likely to be pushed back by about two years, due to weak market demand, low international prices and deferred foreign direct investment (Figure 2). The outlook for rubber and diamond production is also weak. Accordingly, GDP growth is likely to slow to around 5 percent in 2009, consistent with exports declining substantially and domestic demand largely holding up, with gradual recovery during 2010–12.

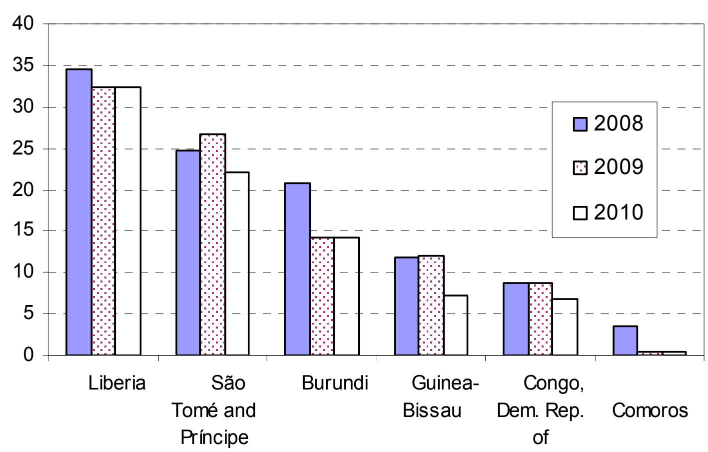
Figure 2. Liberia: Projected GDP Growth, 2008-12



Sources: Liberia authorities; and IMF staff projections.

7. **Several factors mitigate the impact of the external shock:** agriculture continues to expand as resettlement continues in rural areas; the outlook for aid remains largely unchanged and underpins domestic demand (Figure 3); new large-scale foreign investments continue to be finalized in agriculture, energy and mining (a new iron ore investment agreement with a Chinese investor committing US$2.7 billion of new investment awaits ratification by the legislature).

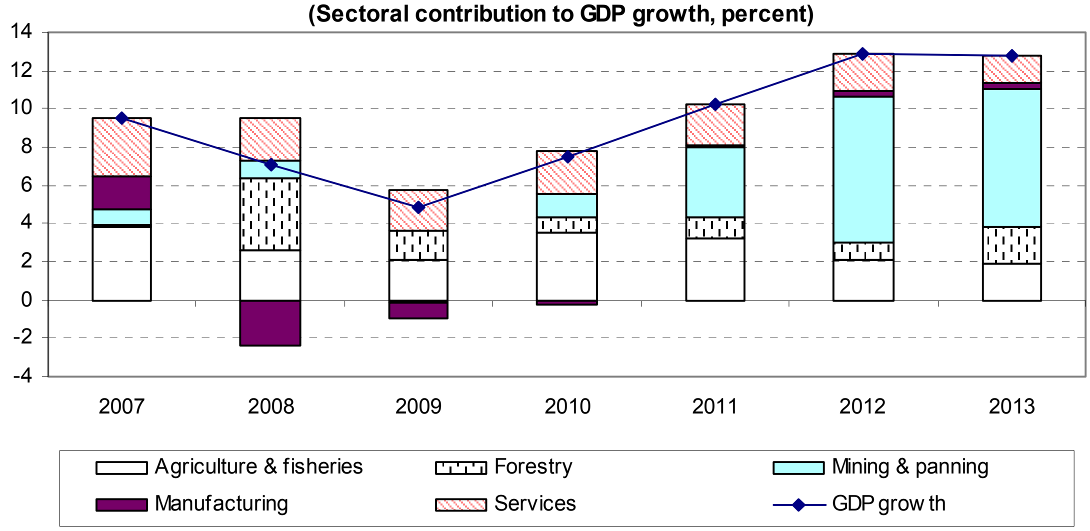
Figure 3. Official Grants, Aid Dependent Fragile States (Percent of GDP)



8. **The main risks to the near-term growth projections are on the downside**. Domestic demand growth could weaken more than projected, particularly in respect of the service sector where data limitations preclude detailed analysis (construction, commerce, transportation).

9. **The longer-term outlook remains bright** (Figure 4). With long investment lead times, iron ore exports are expected to underpin growth from 2012 onwards. Interest in forestry contracts remains high while sizeable investments in oil palm are anticipated. Services (telecommunication, construction and finance) continue to contribute significantly to growth.[2]

Figure 4. Liberia: Medium Term Outlook 2007-13
(Sectoral contribution to GDP growth, percent)



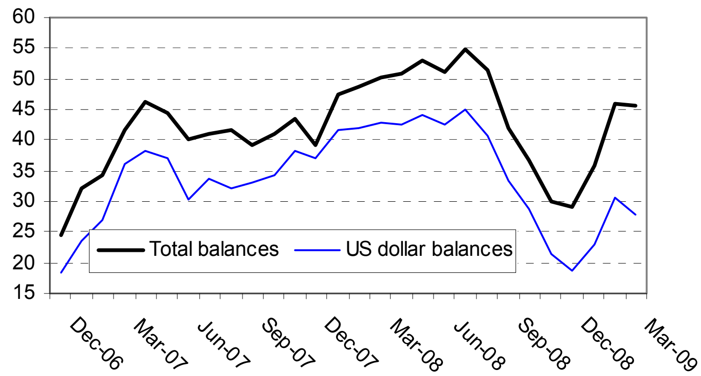
B. Fiscal Program

10. **Fiscal performance through end-2008 was solid, and end financial-year targets are within reach.** Revenue collection slightly exceeded end-December targets because of substantial growth in tax revenue. Revenue yield to GDP continues to increase ahead of program projections for the fourth successive year. Expenditures expanded at a rapid pace. The resulting deficit was financed, as envisaged in the budget, by drawing down the accumulated cash surplus of previous years (Figure 5). Given reduced cash balances, the authorities improved the cash management framework by designating prioritized expenditure

[2] Cross-country comparisons suggest the estimated level of nominal GDP is understated. Accordingly, the projected value added of foreign investments may have a disproportionate effect on GDP growth. Data for the base year 2008 will be updated later in 2009 when the authorities have compiled new national accounts data. A full discussion of statistical issues is in Supplement II.

items that would be protected from cutbacks, but further work is needed to strengthen cash-flow forecasting.

Figure 5. Government Deposits, 2006-09
(Millions of U.S. Dollars)



Source: Ministry of Finance of Liberia.

11. **Slower GDP growth and lower import prices weaken the revenue outlook for FY2009/10** (Tables 5a–5b).[3] Two-thirds of the program tax revenue reduction is on account of import duty collections, corporate and personal income tax receipts. The balance results from a tax policy package to reduce top rates for personal and corporate income taxes from 35 to 25 percent in line with regional rates, and to raise sales taxes as previously planned. Higher non-tax revenues related to iron ore investment partly offset tax revenue losses.[4] Some revenue risks remain notably import duties, forestry and telecommunications license fees. Revenue shortfalls would need to be offset by expenditure reductions, given that the authorities operate a cash-based budget. In discussions with donors, the mission stressed the importance of maintaining aid flows.

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[3] The revenue-to-GDP ratio nevertheless increases because sectors that contribute significantly to the growth slowdown e.g. rubber are not significant sources of revenue.

[4] The Bong Iron Ore Mine investment agreement envisages an upfront payment of two tranches of US$20 million, with the first paid after parliamentary ratification of the agreement in FY 2008/09 and the second in FY 2009/10.

Liberia: Revenue Outlook Weakens

	2008/09		2009/10	
	Program 1/	Revised	Program 1/	Revised
	(Millions of US$)			
Total revenues & grants	249.2	253.6	308.5	291.6
Tax revenue	184.0	179.6	218.6	189.7
Nontax revenue	46.2	57.2	72.0	90.5
Grants	19.0	16.8	17.9	11.4
Total expenditure & net lending	265.4	272.8	295.0	289.2
Overall balance 1/	-16.1	-19.2	13.5	2.5

Source: Liberia authorities; and IMF staff projections.

1/ 2009/10 surplus for domestic debt repayment.

12. **The expenditure outlook for 2009/10 is challenging**. In addition to slower revenue growth, uncommitted cash balances are likely to be low going forward. The authorities recognize that only a modest increase in the expenditure envelope in FY2009/10 will likely be feasible. However, key spending decisions spending remain to be made, notably on wage policy and whether to continue with a contingent budget. Staff advised wage rationalization rather than across-the-board increases and to minimize the contingent budget.

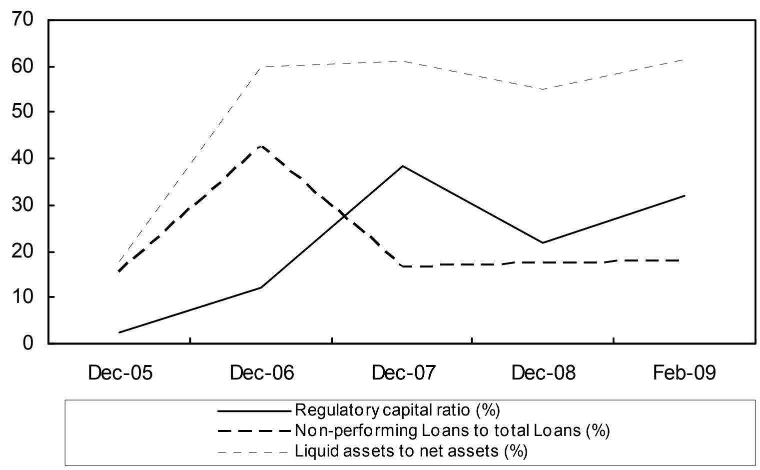
13. **The authorities remain strongly committed to a balanced cash-based budget.** The overall fiscal balance will need to swing from a deficit in 2008/09 – financed by deposit drawdown – to a slight surplus in 2009/10 for domestic debt repayment. However, the surplus is revised downwards from previous program projections because the authorities have deferred opening a domestic debt trust fund—which would have raised financing needs and thereby the required fiscal surplus—owing to fiscal pressures.[5] Staff support reconsidering payments to a debt trust fund in the context of the 2010/11 budget.

[5] Another consideration is the upward revision of the long-term revenue outlook on account of iron ore royalties and income taxes: the domestic debt trust fund was designed to accumulate resources for servicing domestic debt payments falling due over the long term, but with a likely long-term boost from iron ore royalties, this debt could be repaid without recourse to a trust fund.

C. Monetary and Financial Policies

14. **There is little evidence yet that the global financial crisis is adversely affecting the financial sector although there are emerging risks**. Domestic interest rates remain unchanged. Financial soundness indicators are stable or improving owing to recent increases in minimum capital requirements and high liquidity (Figure 6). Commercial banks emphasized to the mission the underlying structural problems including a weak credit culture, difficulty in foreclosing on loans, and limited avenues for Liberian dollar lending. However, businesses report a modest tightening of external credit conditions. The deterioration of domestic economic conditions risks further weakening the quality of banks' loan portfolio. A Fund technical assistance mission advised the authorities to develop capacity for macro-financial risk analysis and monitoring.

Figure 6. Liberia: Financial Soundness Indicators, 2005-09



15. **Monetary policy for 2009 continues to aim for relative exchange rate stability** while targeting a modest increase in the net foreign exchange position of the CBL. In light of lower growth prospects and correspondingly weaker demand for Liberian dollars, understandings were reached on a slightly lower increase of the net foreign exchange position of the CBL.

16. **The reduction of global interest rates has substantially reduced Central Bank income**. To maintain a balanced cash-based budget the CBL is reviewing foreign exchange reserves investment policy with due regard to risk and liquidity, delaying unnecessary spending and identifying cost savings (MEFP¶8). Staff and authorities will review the situation in the context of the next review.

17. **The CBL made progress elsewhere**: (1) off- and on-site bank inspections are now conducted on a regular quarterly and half yearly cycle; (2) foreign exchange sale and purchase auctions regulations were approved and published; (3) use of International Financial Reporting Standards for 2008 audited accounts is on track.

D. Structural Reform Agenda

Fiscal Reforms

18. **Revenue enhancing tax reform legislation advances consistent with previous Fund staff advice**. A revised investment code shifting all revenue incentives to the Liberian Revenue Code (LRC) has been submitted to the Legislature (implementation of the revised code is a completion point trigger) along with amendments to the LRC that clarify investment incentives and create specific fiscal regimes for concessions related to agricultural, renewable, and natural resources.

19. **Public finance management (PFM) legislation and regulations also advance** (MEFP¶16–17). Issuance of PFM regulations by end-June 2009 (structural PC) is on track provided the PFM law now under discussion in the legislature is approved.

Governance and Accountability

20. **The authorities stepped-up efforts to get the Liberia Anti-Corruption Commission functioning effectively, albeit with delay and much remains to be done** (MEFP¶13 and end-September 2008 PC). Staff welcome a 2008/09 supplementary budgetary appropriation for the Commission's operations, the authorities' commitment to provide adequate financing in FY2009/10, and significant technical assistance from donors. The Commission moved ahead in areas where staff had previously identified needs including staffing and operational procedures and is now functional. The authorities reacted promptly to check-related fraud by dismissing or suspending government and CBL staff involved in check processing and launching a criminal investigation (see MEFP¶12 for other actions to strengthen governance). In discussions with the mission, civil society representatives raised the issue of follow-through by the authorities to well-documented cases of corruption.

21. **The General Auditing Commission (GAC) has made significant progress** with 25 government department or agency audits completed, including an audit of the Ministry of Finance for FY2005/06 and FY2006/07. The executive has referred some financial irregularities reported in audits for investigation. However, staff stressed the importance of moving ahead expeditiously with the audits of remaining key ministries which are a HIPC Completion Point trigger and of the 2007–08 government accounts (end-March 2009 PC).

E. Financing Assurances and Debt Strategy

22. **The authorities continue to make a good faith effort to reach a collaborative agreement with creditors**. There is significant progress in finalizing debt restructuring (¶21MEFP): a donor-financed buyback operation of US$1.2 billion commercial debt at a discount consistent with HIPC treatment and near full creditor participation was completed in April 2009; all bilateral and multilateral rescheduling agreements have been finalized or

signed, with the exception of four creditors where responses to the authorities' proposals are awaited. Several bilateral creditors have offered 90–100 percent debt stock reduction at signature.

23. **The authorities are strengthening their national debt strategy** consistent with the draft Public Financial Management Act and expect to conclude this work shortly (¶18MEFP). Also debt recording has improved, debt stock data are published, and financing for debt management software is identified.

24. **An updated external debt sustainability analysis indicates that Liberia remains in debt distress in the baseline scenario with continuing interim HIPC relief** (Supplement I). Under an alternative scenario which assumes full delivery of HIPC, MDRI and IMF beyond-HIPC debt relief at completion point,[6] debt dynamics are well below the indicative thresholds, assuming moderate new borrowing on concessional terms, and robust GDP growth. The inclusion of public sector domestic debt in the analysis does not significantly change the overall assessment of Liberia's debt sustainability.

25. **The authorities request a limited amount of highly concessional borrowing in the program for critical port infrastructure investment** (¶20MEFP). The port of Monrovia is badly damaged and further deterioration could have far-reaching ramifications through lower exports, import shortages, and rising prices. The authorities discussed this proposal with some key HIPC creditors who responded cautiously but positively.

26. **Given the macroeconomic criticality of the project and the tight resource envelope, staff support the authorities' proposal as an exception to the no-borrowing rule provided that safeguards are in place to ensure debt sustainability in the post completion point period**. The borrowing would be capped at US$50 million and with highly concessional terms (grant element above 60 percent). The external DSA incorporates a scenario with additional port borrowing that indicates observance of the relevant debt thresholds is maintained. The adjustment to program external financing would require: (1) conclusion of the commercial debt buyback operation; (2) Liberia's main development partners have no or limited grant financing available for port rehabilitation; (3) the investment is assessed to have a high rate of return. The authorities will seek and be guided by World Bank staff advice on project feasibility and execution risks.

[6] Debt relief in respect of disbursements that occurred after the 2004 cut-off date for MDRI stock of debt relief.

III. Program Monitoring

27. **Staff support the proposed program modifications**:

- Modifications of performance criteria: (1) an adjustor capped at US$50 million to be applied to the external borrowing ceiling (as specified in ¶11 of Attachment II); (2) a revision to revenues for end-December 2009 based on the weaker revenue outlook and a reduction of the programmed increase of the CBL net foreign exchange position in light of projected changes in demand for Liberian dollars (Attachment I, Table 2).

- **Conversion of structural performance criteria** for June, September and December 2009 into structural benchmarks, consisted with the revised Fund policy on structural conditionality effective May 1, 2009. The underlying reform goals and agenda remains as articulated at the first review, when the 2009 reform program was elaborated, and the timely achievement of these goals will form an important part of the assessment at future reviews.

IV. Staff Appraisal

28. **The Liberian authorities have advanced their economic program significantly over the past six months against a backdrop of deepening global recession**. The fiscal program remained on track, inflation is rapidly abating, the exchange rate remains stable and reserves are increasing, while the financial sector remains relatively unscathed.

29. **Staff commend the authorities for maintaining prudent fiscal policies**. The commitment to a balanced cash-based budget continues to be an important anchor for the program. The challenges ahead include revenue base broadening through tax reforms and PFM strengthening to raise expenditure efficiency and expand budget support. The authorities also need to manage public expectations, particularly as regards wage increases and the overall FY2009/10 budget envelope.

30. **Structural reform implementation advances notably with the establishment of a functioning LACC, albeit with a delay.** The staff commend the authorities for bringing the investment incentives reform package to the Legislature and the Public Financial Management Act close to the point of implementation. Limited capacity, particularly in the legislature, poses a risk for timely implementation.

31. **Staff support the authorities' request for limited, highly concessional borrowing for port infrastructure providing critical safeguards are in place**. The proposed borrowing does not undermine debt sustainability after the completion point and is directed at an urgent and important facility necessary to increase trade and economic activity in Liberia. Advice of the World Bank staff for project feasibility and execution risks is an important safeguard.

32. **Staff support three waivers of non-observance of performance criteria on the basis that the deviations were temporary and did not jeopardize key program objectives**. Specifically, waivers would cover PCs on: (i) domestic arrears (ii) CBL spending at end-December 2008, and for the structural PC on the Anti-Corruption Commission (MEFP ¶13).

33. **The global recession poses risks for achieving program outcomes particularly for investment, employment and growth and possibly government revenue.** However, the authorities' strong commitment to prudent economic and financial policies, and their firm intention of reaching the completion point as soon as possible mitigates this risk. Continued strong donor support remains critical to sustaining program objectives. Private mining and agriculture investments are also key and may be at risk if global recovery does not start in 2010. A number of program actions hinge on the active cooperation of the legislature.

34. On the basis of the authorities' record so far and their commitment to continuing strong implementation of their program, staff recommends completion of the second review under the PRGF arrangement and the financing assurances review for the third disbursement under the PRGF.

Table 1. Liberia: Selected Economic and Financial Indicators, 2007–11

	2007	2008		2009		2010		2011
	Est.	1st Review 1/	Est.	1st Review 1/	Proj.	1st Review 1/	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP	9.5	7.1	7.1	12.7	4.9	12.9	7.5	10.3
Consumer prices (annual average) 2/	11.4	17.9	17.5	2.6	2.0	5.0	4.5	5.0
Consumer prices (end of period) 2/	11.7	14.0	9.4	5.0	4.0	5.0	5.0	5.0
Nominal GDP (US$ millions)	734.6	870.9	836.0	997.5	846.4	1,131.9	929.6	1,033.7
GDP deflator (US$)	9.7	10.7	6.2	1.1	-3.4	0.5	2.1	0.8
Real GDP per capita (constant 1992 US$) 3/	126.4	128.8	128.9	138.4	128.9	149.8	132.9	141.3
External sector (US$ terms)								
Exports of goods, f.o.b.	28.6	24.9	24.9	34.9	-57.2	38.6	55.0	104.9
Imports of goods, f.o.b.	13.0	52.5	33.8	26.6	-1.1	14.8	26.4	13.3
Terms of trade (deterioration -)	-10.8	-10.8	-9.4	-9.8	-17.9	-8.6	12.5	11.3
Official exchange rate (L$/US$; end of period)	62.5	…	64.0	...	...	...	...	...
Nominal effective exchange rate (end of period)	-0.5	…	-3.6	...	...	...	...	...
Real effective exchange rate (end of period)	-3.4	…	-6.4	...	...	...	...	...
Central government operations 4/ 5/								
Total revenue and grants	73.3	39.5	39.5	20.7	22.5	1,625.4	1,593.1	-92.5
Of which : total revenue	73.6	36.7	36.7	24.4	17.9	16.3	18.8	2.2
Total expenditure and net lending	67.4	60.2	60.2	84.1	87.5	9.8	6.5	-16.3
Of which : current expenditure	58.4	62.9	62.9	88.3	91.9	10.3	8.6	-21.5
capital expenditure	164.1	43.4	43.4	53.3	56.2	4.6	-12.7	42.2
	(Annual percentage change; beginning-period stock of money, unless otherwise indicated)							
Money and banking								
Net foreign assets	-24.2	24.5	54.7	-1.8	15.9	298.7	283.6	7.4
Net domestic assets	64.3	18.8	-13.3	18.5	-10.8	-281.6	-269.9	8.3
Net claims on government	74.4	9.3	-37.1	18.6	2.8	-281.4	-272.8	4.9
Claims on nongovernment	16.4	1.1	16.8	5.3	-3.9	4.8	4.7	6.0
Other items net	-26.5	8.4	7.0	-5.5	-9.6	-5.1	-1.9	-2.6
Broad money (M2) 6/	40.1	43.1	41.4	16.7	5.1	17.2	13.7	15.7
Velocity (GDP relative to broad money)	3.8	3.2	3.2	3.2	3.1	3.2	3.0	3.0
Reserve money	26.7	24.2	13.1	15.3	14.2	19.1	17.5	15.5
	(Percent of GDP)							
Central government operations 4/ 5/								
Total revenue and grants	22.0	25.8	26.3	26.7	30.1	404.8	483.3	32.7
Of which : total revenue	21.8	25.0	25.6	26.7	28.1	27.3	31.7	29.3
Total expenditure and net lending	18.3	24.6	25.1	38.8	43.9	37.4	44.3	33.6
Of which : current expenditure	15.8	21.6	22.1	34.9	39.5	33.8	40.7	28.9
capital expenditure	2.5	3.0	3.0	3.9	4.4	3.6	3.7	4.7
Overall fiscal balance	3.8	1.2	1.2	-12.1	-13.8	367.4	439.0	-0.9
External sector								
Current account balance, including grants	-31.7	-40.0	-26.3	-35.5	-43.2	-26.8	-62.7	-52.3
Of which : public interest payments due	-19.5	-10.7	-11.2	-10.4	-12.2	-9.3	-11.3	-1.0
Current account balance, excluding grants	-180.7	-160.6	-156.8	-147.6	-175.8	-118.4	-182.3	-151.2
Trade balance	-39.5	-57.4	-48.7	-61.3	-64.8	-54.6	-71.2	-57.2
Exports, f.o.b.	28.3	29.8	31.1	35.2	13.2	42.9	18.6	34.2
Imports, f.o.b.	-67.9	-87.3	-79.8	-96.4	-77.9	-97.6	-89.7	-91.4
Public sector external debt outstanding (total)	571.8	463.4	482.8	414.4	488.4	11.7	14.5	8.4
	(Millions of US$, unless otherwise indicated)							
Gross official reserves	85.3	96.4	86.2	114.1	81.3	143.1	93.9	105.1
(months of imports of goods and services)	0.6	0.7	0.5	0.7	0.5	0.8	0.5	0.5

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

1/ IMF Country Report No. 09/4, January 13, 2009

2/ The Monrovia CPI was replaced in February 2007 with a more comprehensive Harmonized CPI.

3/ 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.

4/ Fiscal year basis (July-June).

5/ Reflects projected debt relief under the HIPC Initiative.

6/ Defined as Liberian currrency outside banks plus demand, time, and savings deposits in Liberian and US dollars.

Table 2. Liberia: Medium-term Outlook, 2007-14

	2007 Est.	2008 Est.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP	9.5	7.1	4.9	7.5	10.3	12.9	12.8	12.9
Agriculture & fisheries	8.9	6.0	5.0	8.3	7.7	5.0	5.0	5.0
Forestry	1.0	29.4	9.9	5.0	6.7	6.3	12.7	3.7
Mining & panning	460.2	109.4	-7.4	84.9	150.1	134.8	61.9	52.9
Manufacturing	12.9	-16.7	-7.3	-2.5	0.4	5.0	5.0	5.0
Services	10.4	7.6	7.3	7.5	7.3	6.5	5.1	5.2
Real GDP excl. mining	8.8	6.2	5.0	6.3	6.6	5.3	5.6	4.0
Prices								
GDP deflator	9.7	6.2	-3.4	2.1	0.8	4.4	4.5	4.4
Consumer prices (annual average)	11.4	17.5	2.0	4.5	5.0	5.0	5.0	5.0
Consumer prices (end of period)	11.7	9.4	4.0	5.0	5.0	5.0	5.0	5.0
Real GDP per capita (in U.S. dollars)	126.4	128.9	128.9	132.9	141.3	154.6	169.3	185.7
Population (millions)	3.8	3.9	4.1	4.3	4.5	4.6	4.7	4.9
	(Percent share)							
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculure & fisheries	30.4	31.0	31.9	32.7	34.1	35.4	36.6	37.8
Forestry	8.5	8.4	8.3	8.2	8.1	7.9	7.7	7.6
Mining & panning	37.9	36.8	35.4	34.0	32.4	30.8	29.3	27.9
Manufacturing	3.0	3.1	3.2	3.3	3.3	3.4	3.5	3.5
Services	20.2	20.7	21.3	21.8	22.2	22.5	22.9	23.2
	(In percent of GDP)							
Central government operations (July-June)								
Total revenue and grants	22.0	26.3	30.1	33.0	32.7	33.9	33.6	33.7
Total revenue	21.8	25.6	28.1	31.7	29.3	30.1	29.3	28.9
Grants	0.2	0.8	2.0	1.3	3.4	3.8	4.3	4.8
Total expenditure and net lending	18.3	25.1	32.4	32.7	33.6	35.9	35.3	35.5
Current expenditure	15.8	22.1	28.0	29.0	28.9	29.4	28.9	28.6
Capital expenditure	2.5	3.0	4.4	3.7	4.7	6.5	6.4	6.9
Overall fiscal balance, including grants (cash basis)	3.8	1.2	-2.3	0.3	-0.9	-2.0	-1.7	-1.8
Overall fiscal balance, including grants (commitment basis)	3.8	1.2	-13.8	439.0	-0.9	-2.0	-1.7	-1.8
Overall fiscal balance, excluding grants (cash basis)	3.5	0.5	-4.3	-1.0	-4.3	-5.8	-6.0	-6.6
External sector								
Current account balance, including grants (deficit, -)	-31.7	-26.3	-43.2	-62.7	-52.3	-11.6	-20.2	-14.2
Current account balance, excluding grants (deficit, -)	-180.7	-156.8	-175.8	-182.3	-151.2	-88.6	-79.5	-44.7
Trade balance, incl. grants (deficit, -)	-39.5	-48.7	-64.8	-71.2	-57.2	-17.3	0.2	13.7
Exports, f.o.b.	28.3	31.1	13.2	18.6	34.2	60.3	78.6	90.4
Imports, c.i.f.	-67.9	-79.8	-77.9	-89.7	-91.4	-77.6	-78.4	-76.7
Trade balance (deficit, -; in millions of U.S. dollars)	-290.5	-407.2	-548.4	-661.5	-591.6	-210.5	2.9	232.0
Grants (donor transfers, net)	148.9	130.5	132.6	119.5	98.9	76.9	59.3	45.3
Gross official reserves (in millions of U.S. dollars)	85.3	86.2	81.3	93.9	105.1	216.5	232.9	380.9
(months of imports of goods and services)	0.6	0.5	0.5	0.5	0.5	1.2	1.2	1.8

Sources: Liberian Authorities; and Fund staff projections.

Table 3. Liberia: Monetary Survey, 2007-09

	2007	2008		2009	
		1st Review	Est.	1st Review	Proj.
	(Millions of L$, unless otherwise indicated)				
Net foreign assets	-47,320	-44,414	-40,773	-44,725	-38,083
Of which: Fund credit and overdue charges	-57,497	-57,375	-55,621	-59,977	-52,111
CBL's gross foreign reserves	7,457	9,446	8,897	11,317	8,690
assets corresponding to government US$-denominated deposits at CBL	3,133	1,588	2,353	975	1,419
assets corresponding to commercial banks' US$ deposits at CBL	2,127	3,325	3,378	3,899	3,447
CBL's net foreign exchange position	2,196	3,187	3,166	3,967	3,824
Net domestic assets	59,297	61,551	57,704	64,732	55,883
Net domestic credit	77,249	78,500	74,817	82,625	74,630
Net claims on government	71,746	72,864	67,303	76,053	67,783
Of which: Fund credit and overdue charges	57,497	57,375	55,621	59,977	52,111
Claims on private sector	4,503	5,422	6,646	6,359	6,782
Claims on public enterprises	132	132	64	132	64
Claims on nonbank financial institutions	81	81	0	81	0
Claims on nongovernment	5,503	5,635	7,514	6,572	6,847
Other items, net	-17,953	-16,949	-17,113	-17,893	-18,747
Monetary aggregates					
Currency outside banks (Liberian banknotes and coins only)	3,317	4,009	3,637	4,611	4,235
Commercial bank reserves at Central Bank of Liberia [1]	502	743	545	871	530
Of which: required reserves	317	463	414	543	397
Reserve money [2]	4,096	5,087	4,635	5,867	5,293
Commercial bank deposits [3]	8,660	13,127	13,294	15,396	13,565
Total demand deposits	5,542	8,873	9,111	10,406	9,297
L$-denominated deposits	524	831	776	974	792
US$-denominated deposits	5,018	8,042	8,335	9,432	8,505
Time, savings, and other deposits	3,118	4,254	4,183	4,990	4,269
L$-denominated deposits	724	1,272	992	1,492	1,012
US$-denominated deposits	2,394	2,982	3,191	3,498	3,256
Broad money (M2) [4]	11,977	17,137	16,931	20,007	17,800
L$ component	4,566	6,112	5,405	7,077	6,039
US$ component	7,411	11,024	11,526	12,929	11,761
Memorandum items:					
US$ component broad money (excluding banknotes, US$ millions)	118.6	173.6	180.1	198.9	182.3
US$ component of broad money (percent of broad money, excluding banknotes)	61.9	64.3	68.1	64.6	66.1
US$-denominated demand deposits (US$ millions)	80.3	126.6	130.2	145.1	131.9
US$-denominated time, saving, and other deposits (US$ millions)	38.3	47.0	49.9	53.8	50.5
Broad money (annual change)	40.1	43.1	41.4	16.7	5.1
L$ component broad money (percent of beginning period broad money)	12.8	12.9	7.0	5.6	3.7
US$ component broad money (percent of beginning period broad money)	27.3	30.2	34.4	11.1	1.4
Currency in circulation (annual change)	27.7	20.9	13.8	15.0	16.4
Reserve money (annual change)	26.7	24.2	13.1	15.3	14.2
Credit to central government (annual change)	9.7	1.6	-6.2	4.4	0.7
Credit to private sector (annual change)	46.2	20.4	47.6	17.3	2.0
CBL's net foreign exchange position (US$ millions)	35.1	50.7	49.5	62.7	59.7
Money Multiplier	2.9	3.4	3.7	3.4	3.4
Velocity (GDP relative to broad money)	3.8	3.2	3.2	3.2	3.1
Currency/deposits (percent; L$ only)	266	191	206	187	235
Nominal GDP	45,913	55,285	53,503	64,839	54,596

Sources: Liberian authorities; and IMF staff estimates.

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

Table 4. Liberia: Balance of Payments, 2007-2009

	2007	2008		2009		2010	2011
	Est.	1st. Review	Est.	1st. Review	Proj.	Proj.	Proj.
				(Millions of US$)			
Trade balance	-290	-500	-407	-611	-548	-661	-592
Exports, f.o.b.	208	260	260	351	111	173	354
Of which : rubber	184	221	207	135	78	83	87
timber	0	0	0	58	6	59	148
iron ore	0	2	2	76	0	0	78
Imports, f.o.b	-499	-760	-667	-962	-660	-834	-945
Of which : petroleum	-85	-135	-147	-104	-83	-107	-127
rice	-48	-120	-114	-69	-64	-53	-49
Services (net)	-903	-777	-776	-740	-819	-870	-867
Of which : UNMIL services 1/	-535	-493	-493	-478	-478	-455	-418
Income (net)	-179	-195	-176	-209	-168	-213	-156
Of which: public interest payments due 2/	-143	-93	-93	-103	-103	-105	-10
o/w IMF		-16	-16	-26	-26	-27	-5
Current transfers (net)	1,139	1,124	1,139	1,207	1,171	1,162	1,075
Donor transfers (net)	1,094	1,051	1,091	1,119	1,122	1,111	1,022
Of which : UNMIL transfers	705	650	650	630	630	600	550
Private transfers (net)	45	73	48	88	48	51	52
Current account balance	-233	-348	-220	-354	-365	-583	-541
Current account balance, excluding grants	-1,327	-1,399	-1,311	-1,473	-1,488	-1,694	-1,563
Capital and financial account (net)	117	36	125	252	304	1,253	552
Capital account (HIPC debt relief)	1	3	3	4	4	4,110	5
Financial account	116	33	122	248	300	-2,858	547
Foreign direct investment (net)	127	200	200	378	323	405	464
Portfolio investment (net)	0	0	0	0	0	0	0
Other investment (net)	-11	-167	-78	-130	-22	-3,263	83
Official financing: Medium & long -Term (net)	-5	-14	-14	-10	-10	-3,278	16
Disbursements	0	0	0	0	0	0	21
Amortization 3/	-5	-14	-14	-10	-10	-3,278	-4
Private financing (net) 4/	-6	-154	-64	-120	-13	15	67
Statistical Discrepancy	-47	-1	7	0	0	0	0
Overall balance	-163	-312	-87	-102	-61	670	11
Financing	163	312	87	102	61	-670	-11
Change in Net Foreign Assets (increase -)	17	-45	-15	-6	-47	-776	-11
Of which : net use of Fund credit and Loans 3/	0	22	22	17	17	-820	7
Disbursements	0	882	882	17	17	14	7
Repayments	0	860	-860	0	0	-834	0
Exceptional Financing	146	357	103	108	108	106	0
Debt forgiveness	665	254	254	0	0	0	0
Change in arrears 5/	-665	-3,947	-4,201	0	0	0	0
Debt rescheduling plus HIPC interim debt relief 6/	146	4,050	4,050	108	108	106	0
Financing gap				0	0	0	0
Memorandum items:							
Current account balance (percent of GDP):							
Including grants	-31.7	-39.8	-26.3	-35.5	-43.2	-62.7	-52.3
Excluding grants	-180.7	-159.8	-156.8	-147.6	-175.8	-182.3	-151.2
Excluding grants and public interest payments due	-161.2	-149.2	-145.7	-137.3	-163.5	-170.9	-150.2
Trade balance (percent of GDP)	-39.5	-57.1	-48.7	-61.3	-64.8	-71.2	-57.2
Donor transfers (net) (percent of GDP)	148.9	120.1	130.5	112.1	132.6	119.5	98.9
Public sector external debt (medium- and long-term)							
Debt outstanding, including arrears	4,201	4,036	4,036	4,134	4,134	135	142
(percent of exports of goods and services)	758	1,125	522	854	640	19	6
(percent of GDP)	572	461	483	414	488	14	8
Debt service charges (after relief)	1.2	0.9	0.9	1.4	1.4	0.7	9.5
(percent of GDP)	0.2	0.1	0.1	0.1	0.2	0.1	0.9
Terms of trade (1997=100)	189.4	184.9	171.6	203.9	140.9	158.6	176.4
Gross official reserves	85	96	86	114	81	94	105
Gross official reserves (months of imports of goods and services)	0.6	0.7	0.5	0.7	0.5	0.5	0.5
GDP at current prices	735	875	836	998	846	930	1,034

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

1/ Net of estimated value of goods and services purchased by UNMIL (and its staff) in Liberia.
2/ From 2007, interest charged on debt stock after application of traditional debt relief mechanisms.
3/ Assumes full delivery of debt relief at Completion Point in December 2010.
4/ Includes short-term trade credits and private sector operating balances abroad.
5/ Includes debt forgiveness from multilateral creditors ($665 m) and Paris Club creditors ($254 m).
6/ Includes deferred debt service payments in the interim period.

Table 5a. Liberia: Summary of Central Government Operations (Commitment Basis), 2007/08-2012/13

	2007/08	2008/09		2009/10		2010/11
	actual	1st Review	proj.	1st Review	proj.	proj.
			(Millions of US$)			
Total revenue and grants	206.9	249.2	253.5	4,310.3	4,292.2	320.9
Total revenue	200.8	230.3	236.7	290.6	281.3	287.5
Tax revenue	168.8	184.0	179.5	218.6	190.6	218.7
Taxes on international trade and transactions	79.1	88.6	86.0	109.8	96.3	112.2
Taxes on income	52.6	54.5	52.2	62.1	47.3	52.2
Taxes on goods and services	34.9	36.9	37.3	42.0	42.9	49.6
Other	2.2	4.1	4.0	4.6	4.2	4.6
Nontax revenue	32.0	46.2	57.2	72.0	90.6	68.8
Grants	6.1	19.0	16.8	4,019.7	4,010.9	33.4
Of which: capital grants related to MDRI and HIPC assistance				4,001.8	3,999.5	
Total expenditure and net lending	197.1	362.2	369.6	398.3	393.6	329.6
Current expenditure	173.2	325.7	332.3	359.9	361.1	283.3
Wages and salaries	68.0	95.2	95.2	103.2	99.8	110.4
Goods and services	61.2	95.4	97.5	111.3	111.3	113.8
Interest on debt	7.5	99.5	103.2	107.9	108.0	13.1
External [1]	1.1	98.3	98.3	104.1	104.3	5.2
Domestic	6.4	1.3	4.9	3.7	3.7	7.9
Subsidies, transfers, and net lending	36.6	35.6	36.4	37.5	41.9	46.0
Capital expenditure	23.9	36.5	37.3	38.4	32.6	46.3
Overall surplus or deficit (incl. grants) [3]	9.8	-112.9	-116.1	3912.0	3898.6	-8.7
Overall surplus or deficit (excl. grants)	3.7	-131.9	-132.9	-107.7	-112.4	-42.0
Total Financing	-9.8	-112.9	116.1	-3912.0	-3898.6	8.7
Foreign borrowing (net)	0.0	96.6	96.6	-3,898.7	-3,896.3	6.1
Project loans	0.0	0.0	0.0	0.0	0.0	10.3
Amortization (-)	0.0	-11.7	-11.7	-4,062.5	-4,060.5	-4.3
Exceptional financing	0.0	108.3	108.3	163.9	164.2	0.0
HIPC debt relief	n.a.	57.7	57.7	54.6	54.6	0.0
Other debt relief and rescheduling [3]	n.a.	50.5	50.6	109.3	109.6	0.0
Domestic borrowing (net)	-9.8	16.4	19.5	-13.3	-2.3	2.6
Nonmonetary sector	0.0	-4.0	-0.4	-0.2	-0.3	4.6
Exceptional financing	-9.8	20.4	19.9	-13.1	-2.0	-2.0
Payment of domestic arrears (-)	-6.5	0.0	-0.5	-2.5	-2.0	-2.0
Accumulation in domestic debt trust fund (-)	0.0	0.0	0.0	-10.6	0.0	0.0
Accumulation in GOL balance at CBL (-)	-3.3	20.4	20.4	0.0	0.0	0.0
Memorandum item:						
Stock of domestic debt (percent of GDP)	38.6	29.7	35.5	26.1	33.5	30.1
			(Percent of GDP unless otherwise indicated)			
Total revenue and grants	26.3	26.7	30.1	404.8	483.3	32.7
Total revenue	25.6	24.6	28.1	27.3	31.7	29.3
Grants	0.8	2.0	2.0	377.5	451.7	3.4
Total revenue (excl. iron ore one-time payments)	23.6	23.8	25.8	25.2	27.7	29.3
Total expenditure and net lending	25.1	38.8	43.9	37.4	44.3	33.6
Current expenditure	22.1	34.9	39.5	33.8	40.7	28.9
Of which: wages and salaries	8.7	10.2	11.3	9.7	11.2	11.2
Capital expenditure	3.0	3.9	4.4	3.6	3.7	4.7
Overall surplus or deficit (incl. grants)	1.2	-12.1	-13.8	367.4	439.0	-0.9
Overall surplus or deficit (excl. grants)	0.5	-14.1	-15.8	-10.1	-12.7	-4.3
GDP (millions of US dollars)	785.3	934.2	841.2	1,064.7	888.0	981.7

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

1/ Starting in 2008/09, this represents debt service due after traditional debt relief mechanisms until the completion point is reached.

Projections assume the completion point is reached in the second half of 2009/2010.

2/ 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.

3/ Amount of debt relief expected beyond traditional mechanisms.

Table 5b. Liberia: Summary of Central Government Operations (Cash Basis), 2007/08-2012/13

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	2007/08	2008/09		2009/10		2010/11
	actual	1st Review	proj.	1st Review	proj.	proj.
			(Millions of US$)			
Total revenue and grants	206.9	249.2	253.5	308.5	292.7	320.9
Total revenue	200.8	230.3	236.7	290.6	281.3	287.5
Tax revenue	168.8	184.0	179.5	218.6	190.6	218.7
Taxes on international trade and transactions	79.1	88.6	86.0	109.8	96.3	112.2
Taxes on income	52.6	54.5	52.2	62.1	47.3	52.2
Taxes on goods and services	34.9	36.9	37.3	42.0	42.9	49.6
Other	2.2	4.1	4.0	4.6	4.2	4.6
Nontax revenue	32.0	46.2	57.2	72.0	90.6	68.8
Grants	6.1	19.0	16.8	17.9	11.4	33.4
Total expenditure and net lending	197.1	265.3	272.8	295.0	290.2	329.6
Current expenditure	173.2	228.9	235.5	256.6	257.6	283.3
Wages and salaries	68.0	95.2	95.2	103.2	99.8	110.4
Goods and services	61.2	95.4	97.5	111.3	111.3	113.8
Interest on debt	7.5	2.7	6.3	4.6	4.6	13.1
External [1]	1.1	1.4	1.4	0.9	0.9	5.2
Domestic	6.4	1.3	4.9	3.7	3.7	7.9
Subsidies, transfers, and net lending	36.6	35.6	36.4	37.5	41.9	46.0
Capital expenditure	23.9	36.5	37.3	38.4	32.6	46.3
Overall surplus or deficit (incl. grants) [2]	9.8	-16.1	-19.2	13.5	2.5	-8.7
Overall surplus or deficit (excl. grants)	3.7	-35.0	-36.0	-4.4	-8.9	-42.0
Total Financing	-9.8	16.1	19.2	-13.5	-2.5	8.7
Foreign borrowing (net)	0.0	-0.3	-0.3	-0.2	-0.2	6.1
Project loans	0.0	0.0	0.0	0.0	0.0	10.3
Amortization (-)	0.0	-0.3	-0.3	-0.2	-0.2	-4.3
Domestic borrowing (net)	-9.8	16.4	19.5	-13.3	-2.3	2.6
Nonmonetary sector	0.0	-4.0	-0.4	-0.2	-0.3	4.6
Exceptional financing	-9.8	20.4	19.9	-13.1	-2.0	-2.0
Payment of domestic arrears (-)	-6.5	0.0	-0.5	-2.5	-2.0	-2.0
Accumulation in domestic debt trust fund (-)	0.0	0.0	0.0	-10.6	0.0	0.0
Accumulation in GOL balance at CBL (-)	-3.3	20.4	20.4	0.0	0.0	0.0
Memorandum item:						
Stock of domestic debt (percent of GDP)	38.6	29.7	35.5	26.1	33.5	30.1
			(Percent of GDP, unless otherwise indicated)			
Total revenue and grants	26.3	26.7	30.1	29.0	33.0	32.7
Total revenue	25.6	24.6	28.1	27.3	31.7	29.3
Grants	0.8	2.0	2.0	1.7	1.3	3.4
Total revenue (excl. iron ore one-time payments)	23.6	23.8	25.8	25.2	27.7	29.3
Total expenditure and net lending	25.1	28.4	32.4	27.7	32.7	33.6
Current expenditure	22.1	24.5	28.0	24.1	29.0	28.9
Of which: wages and salaries	8.7	10.2	11.3	9.7	11.2	11.2
Capital expenditure	3.0	3.9	4.4	3.6	3.7	4.7
Overall surplus or deficit (incl. grants)	1.2	-1.7	-2.3	1.3	0.3	-0.9
Overall surplus or deficit (excl. grants)	0.5	-3.8	-4.3	-0.4	-1.0	-4.3
GDP in millions of US dollars	785.3	934.2	841.2	1,064.7	888.0	981.7

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/ 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 (e.g., payment of arrears, amortization) being reported as financing items. The 2008/09 budget assumes a drawdown of previously accumulated cash balances.

Table 6. Liberia: Millenium Development Goals

	1990	1995	2000	2007
General Indicators				
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
Goal 1. Eradicate extreme poverty and hunger				
2015 target = halve 1990 $1 a day poverty and malnutrition rates:				
Prevalence of child malnutrition (percent of children under 5)	...	...	22.8	...
Population below minimum level of dietary energy consumption (in percent)	34.0	42.0	...	...
Goal 2. Achieve universal primary education				
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)	...	...	...	...
Goal 3. Promote gender equality				
2005 targets = education ratio to 100				
Ratio of girls to boys in primary and secondary education (in percent)	...	...	73.0	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 parlament (in percent)	...	6.0	8.0	13.0
Goal 4. Reduce child mortality				
2015 target = Reduce 1990 under 5 mortaility by two-thirds				
Under five mortality rate (per 1000)	235.0	235.0	235.0	235.0
Infant mortality rate (per 1000 live births)	157.0	157.0	157.0	157.0
Inmunization, measles (percent of children under 12 months)	...	...	52.0	94.0
Goal 5. Improve maternal health				
2015 target: Reduce 1990 maternal mortality by two-thirds				
Maternal mortality ratio (modeled estimate per 100,000 live births)	...	...	1,200.0	...
Births attended by skilled health staff (percent of total)	...	...	51.0	...
Goal 6. Combat HIV/AIDS, malaria and other diseases				
2015 target: = halted, and begin to reverse, AIDS, etc.				
Prevalence of HIV, total (percent of ages 15-24)	...	...	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
Goal 7. Ensure environmental sustainability				
Targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, t 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 (percen of population)	...	36.0	32.0	32.0
Goal 8. Develop a Global Partnership for Development				
Targets: Develop futher an open rule-based, predictable, nondiscriminatory trading and financial system. Address the the special needs of the least developed countries and landlocked countries and smal islands developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent 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

Table 7. Liberia: Fund Credit Position and Projected Payments to the Fund, 2008-2021
(In millions of SDRs unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Prospective drawings 1/														
PRGF	214.3	11.4	8.9	4.4	-	-	-	-	-	-	-			
EFF	342.7	-	-	-	-	-	-	-	-	-	-			
Projected debt service to the Fund 2/	12.4	16.6	16.7	20.9	50.0	97.1	116.2	114.4	112.3	108.9	56.2	4.3	2.2	0.4
In percent of														
GDP	2.1	2.8	2.5	2.9	5.8	9.6	9.7	8.0	7.2	6.7	3.3	0.2	0.1	0.0
Gross Official Reserves	-4.8	-4.8	-4.0	-5.6	-37.6	5212.9	79.2	17.8	14.0	13.6	6.8	0.5	0.3	0.1
Exports of goods and services	5.0	4.6	4.6	6.1	15.4	31.1	38.7	41.8	41.2	40.5	20.4	1.5	0.8	0.1
Fiscal revenues (excluding grants)	9.5	9.5	9.3	10.6	21.8	36.7	36.0	27.9	22.3	18.4	8.4	0.6	0.3	0.1
Projected debt service to the Fund after HIPC and beyond-HIPC debt relief 3/	0.4	0.5	0.5	3.0	0.2	0.2	2.3	4.3	6.0	7.0	7.1	4.3	2.2	0.4
In percent of														
GDP	0.1	0.1	0.1	0.4	0.0	0.0	0.2	0.3	0.4	0.4	0.4	0.2	0.1	0.0
Gross Official Reserves	-0.1	-0.1	-0.1	-0.8	-0.1	8.9	1.5	0.7	0.8	0.9	0.9	0.5	0.3	0.1
Exports of goods and services	0.2	0.1	0.1	0.9	0.1	0.1	0.8	1.6	2.2	2.6	2.6	1.5	0.8	0.1
Fiscal revenues (excluding grants)	0.3	0.3	0.3	1.5	0.1	0.1	0.7	1.0	1.2	1.2	1.1	0.6	0.3	0.1
Fund credit outstanding	557.0	568.4	28.6	33.0	33.0	33.0	30.9	26.8	20.9	14.0	6.9	2.7	0.4	0.0
In percent of														
GDP	96.3	95.7	4.4	4.5	3.8	3.3	2.6	1.9	1.3	0.9	0.4	0.2	0.0	0.0
Gross Official Reserves	-216.5	-164.0	-6.8	-8.8	-24.8	1772.1	21.1	4.2	2.6	1.7	0.8	0.3	0.1	0.0
Exports of goods and services	224.7	158.6	7.9	9.7	10.2	10.6	10.3	9.8	7.7	5.2	2.5	0.9	0.2	0.0
Fiscal revenues (excluding grants)	427.8	325.0	15.9	16.8	14.4	12.5	9.6	6.5	4.1	2.4	1.0	0.4	0.1	0.0
Quota (under the 12th General Review)	431.1	440.0	22.1	25.6	25.6	25.6	23.9	20.7	16.2	10.8	5.4	2.1	0.3	0.0

Source: Finance Department and staff estimates.

1/ A PRGF/EFF-supported program with access in an amount equal to Liberia's stock of arrears to the Fund at arrears clearance (this amount is eligible for both HIPC and beyond HIPC debt relief), and new credit in available 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.

2/ EFF charges during the interim period are based on the adjusted rate of charge of 4.29 percent per annum as of February 5, 2008. Beyond the completion point, EFF charges are based on assumed SDR interest rate (gradually rising to 5 percent) plus 108 basis points and adjustments for deferred charges. Projected debt services do not include net SDR charges and assessments.

3/ It is envisaged that the Fund would disburse HIPC interim assistance to cover forthcoming interest obligations to the Fund net of payment from the Liberian authorities during the HIPC interim period (assumed from March 2008 through December 2010).

Table 8. Liberia: External Financing Requirements and Sources, 2006-2013
(US$ millions)

	Est.	Projections					
	2007	2008	2009	2010	2011	2012	2013
I. Total financing requirement	-1,980	-6,401	-1,544	-5,747	-1,579	-1,163	-1,175
Current account (excluding donor grants)	-1,327	-1,311	-1,488	-1,694	-1,563	-1,079	-1,141
Amortization (excluding IMF)	-5	-14	-10	-3,278	-4	-4	-4
Amortization (IMF credit and loans)	0	-860	0	-834	0	0	0
Change in NFA (increase = -)	17	-15	-47	58	-11	-80	-30
Reduction in arrears (reduction = -)	-665	-4,201	0	0	0	0	0
II. Available financing	1,169	1,215	1,419	5,628	1,572	1,163	1,175
Current transfers	1,094	1,091	1,122	1,111	1,022	937	851
Capital transfers (debt forgiveness)	1	3	4	4,110	5	0	0
Foreign direct investment	127	200	323	405	464	266	352
Official medium- and long-term flows	0	0	0	0	21	24	29
Private Financing	-53	-79	-30	1	60	-64	-57
Required Financing = I+II	-811	-5,186	-125	-120	-7	0	0
Financing	811	5,186	125	120	7	0	0
Identified financing (provisional)							
Debt forgiveness and debt relief grants	665	254	0	0	0	0	0
Debt rescheduling[1]	146	4,050	108	106	0	0	0
IMF PRGF-EFF	0	882	17	14	7	0	0
Financing Gap	0	0	0	0	0	0	0

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

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

Table 9. Liberia: Schedule of PRGF/EFF Disbursements, 2008–11

Amount	Disbursement Date	Conditions for Disbursement[1]
Total : SDR 550.03 million PRGF: SDR 207.26 million EFF: SDR 342.77 million	March 14, 2008	Executive Board approval of the three-year PRGF/EFF arrangements[2]
PRGF: SDR 7.00 million	December 29, 2008	Executive Board approval of the first review under the three-year PRGF arrangements
PRGF: SDR 7.00 million	April 30, 2009	Observance of the performance criteria for December 31, 2008, completion of the second review of the arrangements, and financing assurances review
PRGF: SDR 4.44 million	October 31, 2009	Observance of the performance criteria for June 30, 2009, completion of the third review of the arrangements, and financing assurances review
PRGF: SDR 4.44 million	April 30, 2010	Observance of the performance criteria for December 31, 2009, completion of the fourth review of the arrangements, and financing assurances review
PRGF: SDR 4.44 million	October 31, 2010	Observance of the performance criteria for June 30, 2010, completion of the fifth review of the arrangements, and financing assurances review
PRGF: SDR 4.44 million	March 13, 2011	Observance of the performance criteria for December 31, 2010, completion of the sixth review of the arrangements, and financing assurances review

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

[2] The first disbursement was drawn on March 14, 2008.

ATTACHMENT I. LETTER OF INTENT

Monrovia, April 15, 2009

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

Dear Mr. Strauss-Kahn:

The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) summarizes the substantial progress made in implementing the PRGF-supported economic program through end-2008, our preparations for implementation of the 2009 program and our policy response to the new macroeconomic challenges for Liberia posed by the global recession.

The attached MEFP complements and updates the MEFP of February 27, 2008 which sets out the objectives of our three year PRGF supported program and the update of December 3, 2008 that describes performance through mid-2008 and details policies for 2009.

Performance under the program through end-December has been generally good. We met most quantitative benchmarks and performance criteria under the program: there was a temporary accumulation of domestic arrears in respect of wages due to the late passage of the budget, and a minor excess of Central Bank spending in the year to December 2008 over the initial expenditure ceiling, although the Bank ended the year with a surplus. On the basis that the deviations were temporary we request waivers of nonobservance for these performance criteria. Our efforts to make the Liberia Anti-Corruption Commission functional by end-September 2008 faced some delays and we request a waiver on the basis of the temporary nature of the nonobservance.

We request modifications of the program in respect of a limited amount of highly concessional financing for critical, high return port rehabilitation consistent with long term debt sustainability as detailed further below and modifications to government revenue and net foreign exchange position of the CBL performance criteria for June and December 2009 in line with program revisions described below. We wish to convert structural performance criteria for June, September and December 2009 into structural benchmarks, consistent with the revised Fund policy on structural conditionality effective May 1, 2009.

The Government of Liberia and the CBL believe that the economic and financial policies outlined in this letter and supplementary MEFP provide an adequate basis for achieving the objectives and targets of our program. We will consult closely with Fund staff as detailed in our letter of intent of December 3, 2008.

On the basis of this performance, and on the strength of the policies set forth in the attached memorandum, we request that the second review under the PRGF arrangement be completed and that the third disbursement be approved in the amount of SDR 7.0 million.

We are willing to make the contents of this letter and the attached MEFP available to the public. Therefore, we authorize the IMF to arrange for these documents to be posted on the IMF website following Executive Board conclusion of the review.

Sincerely yours,

/s/	/s/
Augustine Ngafuan	Joseph Mills Jones
Minister of Finance	Executive Governor
Ministry of Finance	Central Bank of Liberia

Memorandum of Economic and Financial Policies (MEFP), 2009

I. Macroeconomic context

1. The recovery of the Liberian economy continued in 2008 with GDP growth estimated at 7 percent. Increases in the prices of imported food and fuel raised inflation to a peak of 26.5 percent.

2. The deepening global recession has, on balance, substantially weakened our growth prospects in the near term. We are benefiting from a reduction of imported food and fuel prices and this is reflected in a rapid slowdown in consumer price inflation to 6.4 percent in January 2009. Our banking system and foreign exchange market have been largely shielded from financial sector turbulence and the exchange rate has remained stable. However, it is clear that export receipts are weakening owing to falling commodity prices and weak external demand. There are also delays or scaling down of FDI and the related production and exports, a recent downturn in remittances, incipient weakness in some government revenue items, and a sharp reduction in CBL interest income.

3. Accordingly, we expect slower GDP growth and lower exports in 2009 and 2010 with an eventual rebound in 2011-2012, and a slowing in the growth of government receipts. Against this background, we plan to reduce and simplify personal and corporate income taxes to help stimulate investment, with the revenue impact partially offset by an increase of goods and services taxes.

II. Program Implementation through end-2008 and 2009 Program

A. Fiscal Policy

4. The fiscal program is on track through end-December: we exceeded the revenue target; accumulated no external arrears; and continued implementing our no-borrowing policy. However, delays in the passage of the 2008/09 budget led to wage arrears in July 2008 that were cleared in August.

5. We are currently preparing the budget for fiscal year 2009/10 consistent with the principles of a balanced budget. Our initial budget circular was consistent with revenue projections agreed at the first review under the Fund-supported program, but the impact of the global financial crisis—in particular the fall in commodity prices and slowdown in growth—are adversely affecting the revenue outlook for 2009/10. Consequently, we will need to restrain our expenditures and revise the program revenue targets downward.

6. In response to the global financial crisis, we intend to submit shortly legislation to reduce the top marginal income and corporate income tax rates from 35 to 25 percent in order to stimulate growth and to simplify the structure of personal income tax. The draft legislation

also proposes to raise the GST rate from its low level in steps from 7 percent to 10 percent. We will submit in April 2009 a revised Investment Incentives code and amendments to the Liberian Revenue Code (LRC) that provides a transparent schedule of investment incentives for selected economic sectors beyond the general tax provisions of the LRC. The amendments also contain fiscal regimes for natural resources and large agriculture projects that were developed with assistance from the Fund.

B. Monetary Policy

7. The CBL has continued to contribute to improving macroeconomic conditions, including through regular foreign exchange sales to maintain broad exchange rate stability, which is the intermediate monetary target aimed at maintaining low inflation. CBL operations under the program are broadly on track with a continued build-up in the net foreign exchange position and no new arrears.

8. The CBL posted a small budget surplus in 2008, although actual spending was marginally above the ceiling originally set for end-December. Higher than expected revenues made it possible to increase capital spending under the program, mainly to secure Liberian dollar currency notes. The CBL intends to have a balanced budget in 2009. This should be seen in the context of a significant decline in interest income of the CBL—the major source of the bank's income—due to the global financial crisis. In the circumstances, we will review our reserves investment policy, with due regard to risk and liquidity, and our spending plans as prudence would dictate. The Board of the CBL will revisit the budget at mid-year taking due account of the current circumstances. Due to lower nominal GDP in 2009, we expect lower Liberian dollar currency demand and accordingly have revised down our net foreign exchange position target moderately while maintaining the objective of a steady build up of reserves.

9. We have revised foreign exchange sale and purchase auction regulations (structural benchmark March 2009). These provide a more effective tool in support of broad exchange rate stability, including through direct sales to the foreign exchange bureaus association as necessary. A summary of the auction results will be posted by the next day on the CBL website.

10. Our banking system continues to expand, is better capitalized and is highly liquid. The number of licensed operating banks has increased from six to eight and all banks now met the increased minimum capital requirement of US$6 million. We continue in our efforts to improve the ability of the banking system to extend credit and to reduce high lending margins. The Government is in the process of establishing a dedicated commercial court to address contract cases and to enable banks to collect collateral on non-performing loans. Meanwhile, the credit reference system operated by the Central Bank is being improved.

11. As regards supervision, quarterly offsite and twice yearly onsite inspections continue with active follow up and CBL directives concerning deficiencies that have been identified. The quarterly off-site inspection report submitted to the Compliance Committee of the CBL will be enhanced as necessary to more adequately deal with the circumstances of individual banks. The adequacy of the existing foreign exchange exposure prudential limit is being kept under review.

C. Governance and Public Financial Management

12. To demonstrate our firm commitment to the implementation of our anti-corruption strategy, we have established a legal taskforce in the Ministry of Justice including prosecution of cases resulting from the ongoing audits by the General Auditing Commission (GAC). We are also establishing a new criminal court to deal specifically with corruption cases by end-September 2009. In parallel, we are awaiting passage of key supportive draft legislation that defines corrupt practices, a code of conduct providing for asset declaration by public servants, and on whistle blowers' protection.

13. We have encountered some delays in getting the Liberia Anti-Corruption Commission (LACC) functional by end-September (PC) due to late passage of the law establishing the LACC. The Commission became operational in December 2008 following the appointment of Commissioners, the recruitment of key staff and the establishment of working premises. Nevertheless, we recognize that the Commission needs strengthening in order to execute its core functions as envisaged in the law, i.e. a detailed work program with key deliverables, staffing for its enforcement function (investigators, auditors and lawyers) and approval of operational procedures and a staff code of conduct drafts of which are being prepared. We are also now close to securing additional donor technical assistance for institutional strengthening. We made a modest appropriation for the Commission in the 2008/09 budget but this was based on expectation of supplementary donor financing, which has not yet materialized. We have provided additional budgetary appropriations that will enable the Commission to strengthen its operations by mid-April 2009 and will make adequate budgetary appropriations for its operations in the budget for 2009/10. We will continue our efforts to seek additional donor financing and technical assistance to ensure the effective role of the Commission.

14. The first report of the Liberia Extractive Industries Transparency Initiative was published on February 9, 2009 and presented a reconciliation of payments made by mining, oil and logging companies to the Ministry of Finance and three other government agencies. Of the nearly US$30 million in payments received from extractive industries less than 1 percent were not reconciled.

15. We completed the merger of the Bureau of Budget into the Ministry of Finance (PC for end-December) by instituting operational procedures that ensure closer coordination

between the Department of Budget with other departments and units in the Ministry of Finance. To improve budget preparation, we developed a medium-term fiscal framework (benchmark for end-December 2008) that served as the basis for our 2009/10 budget circular.

16. Public financial management (PFM) reforms remain a cornerstone of the program. Efforts are underway to substantively improve PFM systems, including in the areas of budgeting, procurement, accounting, internal and external auditing. To base our PFM systems on a sound legal footing, we have submitted a PFM Act to the Legislature (PC for end-December 2008).

17. Looking ahead we are broadly on track with our PFM plans:

- The PFM law we submitted in 2008 awaits legislative approval and we expect to adopt the implementing regulations shortly (benchmark for end-June 2009).

- As part of our project to implement an Integrated Financial Management and Information System (IFMIS) to automate PFM operations, we are in the process of developing a comprehensive chart of accounts and public sector accounting standards (benchmark for end-June 2009). We expect to complete this work by June. We intend to implement double-entry accounting in the Ministry of Finance starting fiscal year 2009/10; to achieve this objective, we will procure shortly an accounting module that complements our current treasury IT system and begin training accountants in its use.

- We have experienced difficulties in fully reconciling all checks between the Ministry of Finance and the Central Bank of Liberia due to the large amount of payroll checks to be processed. This was a contributing factor to instances of multiple cashing of checks. We have referred staff involved to investigation and reconstituted the reconciliation unit. Going forward, we intend to automate the reconciliation process in 2009 by fully employing the reconciliation and cash-book function of our treasury system and linking it to the check printing system which is to be upgraded as well. We have started to clear the backlog of un-reconciled checks with a view to fully eliminating these by the end of the fiscal year.

- We have introduced cash-flow management procedures that better align expenditure commitments with our available resources and revenue forecast. We have defined priority and non-priority expenditure categories and adjusted the latter (mostly capital expenditures) if needed for cash-flow management purposes. We are also refining our cash-flow forecasts.

- The external audit of central government's accounts for fiscal year 2007/08 is underway and we are making best efforts to complete this audit in order to meet the end-March 2009 program PC. The Auditor General is also making good progress on completing the audit of five key ministries for 2006/07, which we expect to complete by April 2009. A 2007/08 audit of these ministries will follow.

- To enhance the efficiency of our procurement process, we submitted amendments to the procurement act to the legislature in April 2009. The implementing regulations have been completed and will be issued upon passage of the amendments to the procurement act.

D. External Policies and Debt Management

18. Consistent with the PFM Law, we will update our national debt strategy by June 2009. This will include explicit principles for new borrowing post-HIPC completion point, including loan terms and conditions, project rates of return and a debt sustainability framework. The strategy will discuss plans for management of contingent liabilities, borrowing from CBL for liquidity purposes, state owned enterprise borrowing, and borrowing from donors.

19. The updated domestic debt strategy will consider modalities for utilizing domestic financing sources after we have reached the completion point. This expands the range of options we have for retiring domestic supplier arrears, for example by issuing domestic bonds. The feasibility of establishing a domestic debt trust fund is unlikely because of unavailability of donor funding. Moreover, the long-term revenue accruing from iron ore concession agreements may enable us to meet long-term obligations from restructured debt of the Central Bank without a trust fund.

20. We seek a one-off modification of the 2009 program to enable a limited amount of highly concessional borrowing for a critical infrastructure need: after many years of neglect during the Liberian conflict, the main wharf of the Freeport of Monrovia is badly damaged, inefficient and its continuing operation is imperiled. In view of the criticality of the investment, we request an adjustment of the program to allow for up to US$50 million of highly concessional financing with a grant element of at least 60 percent to repair the main wharf of the port. This modest level of concessional financing is expected to have a minimal impact on Liberia's debt indicators after the HIPC completion point and is consistent with long term debt sustainability. Before the requested adjustment is effected we would, in consultation with Fund and Bank staff, ascertain that:

- The commercial debt buy-back operation is completed.

- Our main development partners have limited or no grant financing available for port rehabilitation.

- The investment is assessed to have a high rate of economic return. We will request and be guided by World Bank staff advice on project feasibility and execution risks.

21. We are making progress in the implementation of our HIPC Initiative debt restructuring:

- Bilateral negotiations with our external creditors have progressed smoothly. We have signed (or finalized) agreements with nearly all our bilateral and multilateral creditors with several agreements to be signed shortly. For the few remaining creditors, we have made proposals with a view to reaching agreement for comparable debt treatment as soon as possible.

- We launched a buyback of US$1.2 billion commercial debt with World Bank and other donor financing in January 2009. We anticipate a high level of participation that would enable finalize the transaction by end-April.

- We are making progress in rebuilding our debt database taking advantage of the bilateral debt negotiations to assemble missing debt records. We have identified donor financing to procure appropriate debt management software by end-December 2009. In the meantime, we have posted an external debt stock report for end-2008 on the Ministry of Finance website.

E. Poverty Reduction and Other Structural Reforms

22. We continue to implement our Poverty Reduction Strategy (PRS), which was finalized in April 2008. Rebuilding our devastated infrastructure, in particular roads, continues to be a high priority and we are working to make maximum use of the dry season to address the infrastructure gap. We continue to seek further sources of funding for our many basic infrastructure needs. A National Security Sector Reform Strategy has been completed, and representatives of the security institutions are increasingly being deployed throughout the counties and towns of Liberia to provide protection, preserve the peace, and respond to other security needs of citizens.

23. We are moving forward in producing comprehensive, reliable and timely key economic statistics for the first time in over 20 years. We are on track to finalize the 2008 National Accounts survey by end-2009 (benchmark). Our plans to conduct a household income and expenditure survey are delayed to 2010 owing to a lack of funding. With IMF assistance we have completed balance of payments statistics for 2004-07, and expect to complete the 2008 accounts by end September 2009 (Benchmark). We have secured donor support for the completion of a labor force survey later in 2009.

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.	1st Review
Performance criteria and indicative targets 1/								
Fiscal 2/								
Floor on revenue collections 3/	139.5	143.4	185.7	200.8	43.3	46.2	91.7	90.8
Floor on fiscal balance 3/ 4/	-13.7	19.6	-13.7	3.3	0.0	-1.7	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	0.0
Ceiling on new domestic borrowing (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new external borrowing (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables (excluding the arrears arising from the current debt outstanding) (continuous basis)	0.0	0.0	0.0	0.0	0.0	not met	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	0.0
CBL 5/								
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	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

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

2/ Cumulative; fiscal year basis.

3/ Refecting updated information, actual data for September 2008 have been revised downwards by US$1.1 million from the data reported in IMF Country Report No. 09/4

4/ 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.

5/ Cumulative; calendar year basis.

Table 2. Liberia: Quantitative Performance Criteria and Indicative Targets, 2009

(Millions of US$)

	Mar. 09	Jun. 09		Sep. 09		Dec. 09	
	1st Review	1st Review	Revised prog.	1st Review	Revised prog.	1st Review	Revised prog.
Performance criteria and indicative targets [1]							
Fiscal [2]							
Floor on revenue collections	148.6	230.3	230.3	66.7	61.3	133.4	108.4
Floor on fiscal balance [3]	-20.4	-20.4	-20.4	0.0	0.0	0.0	0.0
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	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
CBL [4]							
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	-1.4	-1.0	-1.0	-0.4	-0.4	0.0	0.0
Floor on CBL's net foreign exchange position	52.3	55.7	54.2	59.3	57.1	62.7	59.7

[1] Performance criteria at end-June and end-December 2009.

[2] Cumulative; fiscal year basis.

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

[4] Cumulative; calendar year basis.

Table 3. Performance Criteria and Structural Benchmarks, 2008

Measures	**Target Dates**	**Status**
Add measures from January – June		
Performance Criteria		
Adopt legislation to limit transfers between budget lines without legislative approval to a cumulative total of no more than 30 percent.	End-March 2008	Met
Adopt legislation to merge the Bureau of the Budget into the Ministry of Finance.	End-June 2008	Achieved by September
Establish a system of off-site inspection by requiring quarterly submission of prescribed data by all banks, and submit the first written reports to the Banking Compliance Committee.	End-June 2008	Met
Establish a functioning Liberia Anticorruption Commission, consistent with Liberia's anticorruption legislation.	End-September 2008	Met with delay due to late passage of legislation and inadequate financing.
Submit a draft PFM law to the legislature.	End-December 2008	Met
Structural Benchmarks		
Prepare a chart of accounts consistent with GFSM 2001-compatible budgetary classifications.	End-March 2008	Met
Publish a list of banks licensed to operate in Liberia as part of the strategy for resolution of abandoned and non operating banks.	End-March 2008	Met
Develop a comprehensive national statistical development strategy.	End-March 2008	Achieved by August
Develop an internal audit strategy for the central government.	End-June 2008	Met
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
Complete the merger of the Bureau of the Budget into the Ministry of Finance.	End-December 2008	Met
Develop a medium-term macro fiscal framework for the purpose of preparing the 2009/10 budget.	End-December 2008	Met

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

Measures		Target Dates	Justification	Status (End March)
Performance criteria:				
1.	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	Ongoing
Program benchmarks:				
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	On track
2.	Adopted accounting standards for the government and a comprehensive chart of accounts.	End-June 2009	Strengthen budget transparency and credibility	On track
3.	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	Drafting of regulations began February 2009
4.	Regulations and guidelines under the Public Procurement and Concessions Act approved by Cabinet and issued.	End-July 2009	Improve the pace and transparency of non wage spending by line ministries and agencies	On track – drafts completed and approved by stakeholders.
5.	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	Will begin July 2009
6.	Full balance of payments statistics for 2008 completed and published by the CBL and LISGIS.	End-October 2009	Improve macroeconomic statistics and program monitoring	On track
7.	National Accounts establishment survey completed.	End-December 2009	Urgently needed to monitor program performance and post conflict recovery	Establishment survey began January 2009
8.	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	Agreement on funding has been reached in principle with the World Bank.

Table 5. Triggers for Liberia's Floating Completion Point

Trigger	Status
PRSP • Prepare a full PRSP through a participatory process and implement satisfactorily its recommended actions for at least one year, as evidenced by an Annual Progress Report submitted by the government to the staffs of IDA and the IMF	Full PRSP was finalized in April 2008. On track.
Macroeconomic stability • Maintain macroeconomic stability, as evidenced by satisfactory performance under a PRGF/EFF-supported program	The second review under the PRGF scheduled for May 2009.
Public financial management • Quarterly Publication in the Procurement bulletin and monthly publication in the Website of all signed procurement contracts over US$25,000 for goods, US$10,000 for consulting services, and US$50,000 for works and all signed-sole source procurement and concessions contracts which have been identified by the PPCC as a result of the PPCC's compliance monitoring activities for at least 6 months leading up to the completion point • Complete successive annual external audits of five key government ministries (Health, Education, Public Works, Finance and Lands, Mines and Energy), prepared under the authority of the General Auditing Commission, submitted to the legislature and disclosed publicly • Implement the new PFM law and supporting financial regulations for at least 12 months leading up to the completion point	• Audit of Ministry of Finance has been completed; remaining four audits for FY2006/2007 started in February 2009. • PFM law has been submitted to parliament; Fund is providing TA to develop regulations.
Social sectors • Ensure that the Basic Package of Health Services is delivered in at least 40 percent of all health facilities nationwide • Complete a harmonized and regularized Ministry of Education payroll	• Ongoing.
Debt Management • Develop a debt management strategy in consultation with partners and establish a debt management unit recording all information on external and domestic public and publicly guaranteed debt, including for state owned enterprises, and ensure it is operational for at least 12 months leading up to the completion point • Publish, on a quarterly basis and on a government website, data on external and domestic public and publicly guaranteed debt, including debt stocks and terms and conditions of new loan agreements for at least 6 months leading up to the completion point	• Debt management strategy has been adopted by authorities in June 2008 and a debt management unit has been established. • First quarterly data report for end-December 2008 posted on the internet February, 2009.
Governance • Implement a revised investment incentive code to ban granting tax exemptions outside the Liberia Revenue Code • Regular public reporting of payments to, and revenues received by, the government for the extractive industries (mining and minerals) in a participatory manner in line with EITI criteria during at least the year leading up to the completion point • Establish an independent Anti-Corruption Commission consistent with the Anti-Corruption Act, and ensure it is operational for at least 12 months leading up to the completion point	• Investment code has been revised with special fiscal provisions moved to the Liberia Revenue Code and was submitted to Legislature in April 2009. • The EITI published its first annual report in February 2009. • Anti-Corruption Commission established in September 2008 and operational from December 2008.

Attachment II – Technical Memorandum of Understanding (TMU)

1. This memorandum sets out the understandings between the Liberian authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative and structural performance criteria and benchmarks for the three-year PRGF/EFF program, as well as the reporting requirements.

I. Quantitative Performance criteria and benchmarks

A. Test Dates

2. Quantitative performance benchmarks have been set for 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. **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.

10. **The government undertakes not to contract or guarantee new external debt by any public sector entity**. 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.

11. **The ceiling on contracting or guaranteed new external debt will be adjusted upwards** in the amount of up to US$50 million when the following conditions are met: (i) the commercial debt buy-back operation is completed**;** (ii) the contracted loan has a grant element of at least 60 percent and can be used only to finance rehabilitation of port facilities; (iii) the investment is assessed to have a high rate of economic return; (iv) the World Bank staff has conducted an assessment of project feasibility and execution risks.

Concessionality: The concessionality of external loans will be based on a currency-specific discount rate according to the currency of the contract and the maturity date of the operation. For loans with maturities equal to or greater than 15 years, the 10-year average of the OECD's commercial interest reference rate (CIRR) will be used. The six-month average

CIRR rate will be applied to loans with maturities of less than 15 years. In all cases, the CIRR rates will be adjusted by the relevant margins specified in concessionality spreadsheets prepared by the IMF to account for the maturity dates of the operation. Maturity will be determined on the basis of the original loan contract.

12. **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.

13. **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.

14. **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

15. The Liberian authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the CBL, and other relevant agencies. The IMF Resident Representative will have observer status 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

16. 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).

17. The above data and reports will be provided in hard copies and electronically to the IMF Resident Representative to Liberia, with copies to the local IMF economist, Mr. Deline (at 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.

INTERNATIONAL MONETARY FUND

LIBERIA

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver and Modification of Performance Criteria, and Financing Assurances Review—Informational Annex

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

April 22, 2009

- **Relations with the Fund.** Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 553.47 million (103.8 percent of quota) at end-June 2007.

- **Joint World Bank-IMF Work Program, 2008–09**.

- **Statistical Issues.** Assess the quality of the statistical data. Weaknesses in a broad range of economic statistics are hampering the analyses of economic developments in the country.

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I. Relations with the Fund
(As of February 28, 2009)

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

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

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	21.0	100.0
Holdings	14.1	67.0

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
PRGF Arrangements	214.3	165.8
Extended Arrangements	342.8	265.3

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	03/14/2008	03/13/2011	342.8	342.8
PRGF	03/14/2008	03/13/2011	239.0	214.3
Stand-By	12/07/1984	12/06/1985	42.8	8.5

VI. Projected Payments to the Fund[1] (Expectation Basis)[2]
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	2010	2011	2012	2013
Principal				57.13	134.98
Charges/interest	5.82	7.41	7.41	7.21	5.02
Total	5.82	7.41	7.41	64.34	140.00

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

[2] 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)[3]
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	2010	2011	2012	2013
Principal				28.56	77.85
Charges/interest	5.82	7.41	7.41	7.31	6.07
Total	5.82	7.41	7.41	35.88	83.92

VII. Implementation of HIPC Initiative:

	Enhanced Framework
A. Commitment of HIPC assistance	
Decision point date	Mar 2008
Assistance committed by all creditors (US$ million)[4]	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[5]	--
Total disbursements	15.0

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

[3] 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 b 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.

[4] 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 ca not be added.

[5] 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-January 2009 was L$64.5=US$1.

XI. Article IV Consultation

The 2008 Article IV consultation discussions were held in Monrovia during October 20-31, 2008 in Monrovia. The staff report (Country Report No. 09/4, 1/13/09) was discussed by the Executive Board on December 22, 2008 and is posted on the IMF website.

XII. Technical Assistance

Subject	Department	Date
Mission: assessment of TA needs	MFD	Dec. 2003
Mission: monetary operations, foreign exchange, auctions, banking supervision, payments system	MFD	May 2004
Mission: monetary operations, foreign 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: bank supervision	MCM	Sep./Oct. 2008
Mission: central bank accounting	MCM	Jan. 2009
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: review of revenue administration reforms and technical assistance needs	FAD	Feb. 2009
Mission: PFM—drafting regulations	FAD	Feb./Mar. 2009
Mission: fiscal decentralization	FAD	Feb./Mar. 2009
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.

II. Joint World Bank-IMF Work Program, 2008–09

(As of March 31, 2009)

Title	Products	Timing of mission	Expected delivery date	Status
A. Mutual information on relevant work programs				
1. World Bank work program through end-2009	1. Finalize Joint Country Assistance Strategy with African Development Bank	Mission completed Jun. 2008	Nov. 2008	Scheduled Apr. 2009
	2. Draft regulations and user manuals for the Public Procurement and Concessions Act	Jul. – Nov. 2008	Nov. 2008	Completed in Mar. 2009
	3. Urban & Rural Infrastructure Rehab. Project		Apr. 2009	
	4. Commercial Debt Reduction Program		Apr. 2009	Completed in Apr. 2009
	5. Reengagement and Reform Support Program II	Feb. 2009	May 2009	
	6. Pro-poor Growth – Policy Note		Apr.-May 2009	
2. IMF work program through end-2009	1. 2008 Article IV consultation, and First Review of PRGF-EFF Program.	Sep. - Oct. 2008	Dec. 2008	Concluded, Dec. 2008
	2. Cross-country experience with de-dollarization	Prepared as part of 2008 Article IV mission.	Dec. 2008	Issued Mar. 2009 as IMF Working Paper
	3. Second Review of PRGF Program and joint DSA	Feb. 12-25, 2009	Mar. 2009	Scheduled for May 2009
	4. Technical assistance with PFM strategy	Jun./Jul. 2009	Sep. 2009	
	5. Third Review of PRGF	Sep. – Oct. 2009	Dec. 2009	
3. Work jointly performed	1. Assist authorities with developing decentralization strategy.	IMF mission Feb.–Mar. 2009. WB HQ Review	Mar. 2009	Report expected for Apr. 2009
	2. Assist authorities with modernization of tax administration through ongoing advice (Fund) and preparation of automation (WB)	IMF mission Tax Administration Feb.,2009. WB ITAS mission Feb. 2009	Continuous	Ongoing
	3. Assist authorities with strengthening of public finance management: PFM law and regulations (Fund); PFM manuals & accounting manuals (WB).	Ongoing during 2009	PFM law and regulations by end-Jun. 2009, manuals.	
B. Requests for work program inputs				
Fund request to Bank	1. Advise authorities on port rehabilitation project feasibility and execution risks		Second half 2009	
	2. Financing of debt management software and installation	Second half 2009	Completed by Dec. 2009.	
Bank request to Fund	1. Regular updates of performance under the Fund-supported program and macroeconomic projections.		Continuous	

III. 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. The national business register and National Accounts questionnaires were established in December 2008 and the first post conflict annual establishment census was launched in February 2009. The National Accounts survey was launched in February 2009. National Accounts estimates are expected by end 2009. Improvements in data quality require: (i) a Household Income and Expenditure Survey to develop reliable data on informal household sector production activities as well as on expenditures by households and also form a basis for consumer price index weights (ii) labor survey. The population census conducted in 2007 will be the source for designing these surveys.

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). The weights were revised based on the results of the Core Welfare Indicators Questionnaire and the recommendation made by the June 2007 CPI technical assistance mission on the implementation of the review of weights. The reference base retained for the new series was set as December 2005=100. The HCPI covers only the Greater Monrovia and there is need to extend the HCPI to include all the counties.

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. The authorities plan to adopt International Financial Reporting Standards (IFRS) as the accounting framework for the year 2008. The report of a special audit of the CBL monetary data reporting found that the Bank is on course to be fully compliant with all the relevant IFRS's that impact the operations of the Bank in 2008 in the externally audited accounts for 2008. 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. The CBL has made significant progress in rebuilding capacity for balance of payments statistics. With the assistance of STA long-term advisor in balance of payments statistics, the CBL was able to report comprehensive balance of payments statistics for publication in the *IMF Balance of Statistics Yearbook (2008*). However, significant gaps remain to be filled—particularly in the area of financial account—to improve the overall quality of reported 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.

9. Significant gaps exist in the records of external public debt, particularly those related to bilateral and commercial creditors. 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. The balance of payments unit in the CBL is adequately staffed—two officers have attended the IMF Headquarters course on balance of payments statistics, and one more is scheduled to attend the next course to be held in May 2009.

Liberia—Table of Common Indicators Required for Surveillance

As of March 31, 2009

	Date of latest observation	Date received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of publication[5]
Exchange Rates	Feb. 2009	Mar. 2009	D	M	B
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb. 2009	Mar. 2009	M	M	B
Reserve/Base Money	Feb. 2009	Mar. 2009	M	M	B
Broad Money	Feb. 2009	Mar. 2009	M	M	B
Central Bank Balance Sheet	Feb. 2009	Mar. 2009	M	M	B
Consolidated Balance Sheet of the Banking System	Feb. 2009	Mar. 2009	M	M	B
Interest Rates	Feb. 2009	Mar. 2009	M	M	B
Consumer Price Index	Feb. 2009	Mar. 2009	M	M	B
Revenue, Expenditure, Balance and Composition of Financing[2] – General Government[3]	Jan. 2009	Mar. 2009	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[2]– Central Government	Jan. 2009	Mar. 2009	M	M	B
Stocks of Central Government and Central Government-Guaranteed Debt	Dec. 2008	Mar. 2009	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	Dec. 2008	Mar. 2009	Q	B	B
International Investment Position	N/A	N/A	N/A	N/A	N/A

[1] Includes reserve assets pledged or otherwise encumbered.
[2] Foreign, domestic bank, and domestic nonbank financing.
[3] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.

INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

LIBERIA

Joint World Bank/IMF Debt Sustainability Analysis

Prepared by the staffs of the International Development Association and the International Monetary Fund

Approved by Dominique Desruelle and Thomas Krueger (IMF) and Sudhir Shetty and Carlos Braga (World Bank)

April 22, 2009

This update of the external low-income country debt sustainability analysis (LIC DSA) indicates that Liberia remains in debt distress in the baseline scenario.[1] *[2] Under the alternative scenario, which assumes full delivery of HIPC, MDRI and IMF beyond-HIPC*[3] *debt relief at completion point, debt dynamics are below the relevant policy-dependent indicative thresholds, assuming moderate new borrowing on concessional terms, and robust GDP growth. The inclusion of public domestic debt in the analysis does not significantly change the overall assessment of Liberia's debt sustainability.*

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[1] These DSAs have been produced jointly by the World Bank and Fund staffs. Liberia's fiscal year runs from July to June.

[2] Liberia will be rated under the World Bank's Country Policy and Institutional Assessment (CPIA) by June 2009. For the purposes of this analysis, the staff's have assumed a weak policy rating without prejudicing the upcoming CPIA assessment). Accordingly, the corresponding indicative thresholds for the external LIC DSA are 30 percent for the NPV of debt-to-GDP ratio, 100 percent for the NPV of debt-to-exports ratio, and 15 percent for the debt service-to-exports ratio. See "Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations" (http://www.imf.org/External/np/pp/eng/2005/032805.htm, 3/28/05) and "Applying the Debt Sustainability Framework for Low-Income Countries Post Debt Relief" (www.imf.org, 11/6/06).

[3] Liberia's debt to the IMF under the 3-year PRGF/EFF will not be covered by MDRI since it was contracted after the end-2004 MDRI cutoff date. "Beyond-HIPC" debt relief refers to the assistance necessary to reduce the value of the stock of qualifying debt to zero.

A. Introduction

1. **This joint DSA was prepared using the Fund-World Bank debt sustainability framework for low-income countries approved by the respective Executive Boards with some modifications to the stress tests to address data limitations in Liberia.**[4] It presents the projected path of Liberia's external and public debt indicators and draws conclusions on the forward-looking sustainability of debt under baseline and alternative scenarios for debt relief and macroeconomic developments. The macroeconomic framework data were updated by Fund and World Bank staff following discussions with the authorities in February 2008. The base year debt stock and debt service data reflect data used at the decision point with updates for interim assistance from multilateral creditors.

2. **Three changes to the baseline scenario explain the differences between the current analysis and the previous DSA at the HIPC decision point in March 2008**: (i) the path of GDP and export growth has been modified to reflect a delay in the recovery of Liberia's exports and foreign direct investment resulting from the ongoing global recession but with higher long-term iron ore exports on the basis of investment agreements (ii) the balance of payments data for services are revised upwards reflecting new estimates of receipts and payments; and (iii) government domestic debt owed to the Central Bank of Liberia (CBL) was excluded from the analysis to bring the public DSA in line with the definition of public sector. The macroeconomic impact of the iron ore sector is substantial as indicated in comparisons of debt indicators in relation non-iron ore GDP (Figure 1).

B. Baseline Scenario

3. The baseline scenario draws historical data from the previous DSA and projections from macro-economic framework underpinning the second review of Liberia's PRGF arrangement. Average real GDP growth over 2007/08–2012/13 is projected at 9.0 percent, spurred by FDI-financed projects in the mining, forestry, and agriculture sectors and more broadly normalization of economic activities resulting from improved security. Over the longer run, real growth is projected to moderate to 5.5 percent declining to 3.5 percent by the end of the projection period, as the growth of FDI-related output diminishes. Projected growth remains above the pre-conflict average growth rate of 3.0 percent in the early projection period due to the catch-up effect seen in post conflict countries and historically large flows of FDI. Inflation rate measured by GDP deflator (US dollar terms) is projected to increase at an average of 2.8 percent over 2007/08–2012/13 and at 1.9 percent during 2017/18-2027/28.

[4] The historical averages for the stress tests are the same as used in the decision point DSA.

4. Liberia is assumed to have limited recourse to public sector borrowing over the long-term. The DSA assumes that the cash-based balanced budget is maintained to the completion point at end-2009/10. Starting 2010/11, borrowing commences at a rate of 2 percent of GDP per year, predominantly from external concessional sources. Grants are expected to be the main source of external financing post HIPC completion point, reflecting Liberia's low income per capita.[5] From 2015/16, as revenues are boosted by substantial iron ore royalty payments, borrowing drops to 1½ percent of GDP including a net repayment of outstanding domestic debt.

5. The revenue-to-GDP ratio increases in the short term on account of timber-related revenue and in the medium to long term from taxes and royalties on iron ore mining. The revenue projections are based on two large iron ore projects; in one, the concession agreement has been ratified by the legislature; and in the other rehabilitation of mining facilities is underway.

6. **The external position is expected to improve gradually with continued donor support and increasing FDI over the medium term**. Nonetheless, the baseline scenario indicates a significant deterioration of the debt ratios in the first few years compared to the last DSA. This is largely due to the impact of the global crisis on FDI and exports in the period through 2012. The non-interest current account deficit is projected to decline from 38 percent of GDP in 2008/09 to about 7 percent of GDP by 2012/13 as iron ore exports come on stream and further improving to average surplus 1 percent of GDP during 2013/14-2026/27. The counterpart to the improving current account is higher private sector savings assumed to result from rising incomes and development of the financial system. Donor transfers are projected to decline in the medium term, coinciding with the eventual drawdown of the UNMIL mission but would remain above 20 percent GDP over the projection period.

7. **The baseline scenario assumes full delivery of traditional debt relief, multilateral arrears clearance and interim HIPC assistance**. In addition, a financing gap is assumed to be met through additional voluntary interim period assistance beyond HIPC Initiative relief. Consistent with LIC DSA guidelines, the baseline does not reflect the delivery of HIPC, MDRI and IMF beyond-HIPC assistance at the completion point; however, this is presented in an alternative scenario with debt stock declining to about U$262 million (text table).

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[5] The decision point DSA assumed borrowing equivalent to 3 percent of GDP after the completion point. The reduction of borrowing in the DSA update is a reflection of higher revenue projections reflecting iron ore royalties.

Liberia External Debt Profile US$ Millions	Jun-07	Dec-08	Feb-09	**2011***
Multilateral creditors	1619.2	1052.1	1052.1	162.6
Bilateral Paris Club	1459.8	725	608.4	43.91
Bilateral Non-Paris Club	129.8	119.5	119.5	10.13
Commercial	1686.3	1233.8	1233.8	45.22
Total	4895.1	3130.4	3013.8	261.86

Source: http://www.mofliberia.org/externaldebt.htm, 04/02/2009

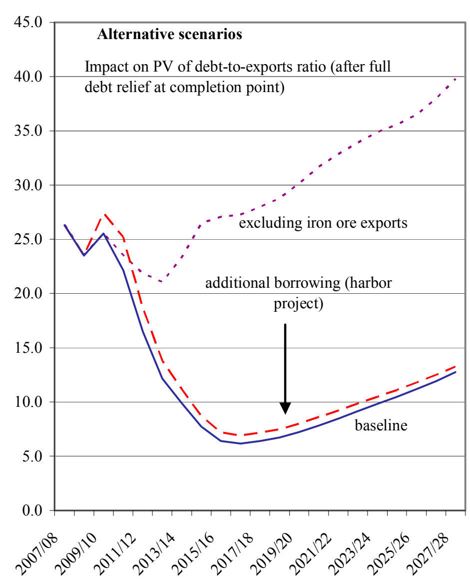
*Staff estimates of debt stock (nominal) after completion point.

C. Debt Sustainability Analysis

External Debt Sustainability

8. **The baseline scenario indicates that Liberia is in debt distress**. With exception of debt-service-to exports ratio, all key debt indicators are well above their policy-dependent indicative thresholds in the baseline scenario (Table 1a, Figure 2). With export growth, the PV of external debt-to-export ratio is expected to fall below the threshold by 2014/15, while the PV of external debt-to-revenue moves below the 200 percent threshold by 20186/17 reflecting the impact of iron ore production royalties on revenue. The ratios of debt service to exports and to revenue rise substantially in the period 2011-18 mainly on account of debt service related to Fund EFF and PRGF credit.

9. **The alternative scenarios and bound tests reveal significant underlying vulnerabilities and highlight the continuing importance of debt relief** (Table 1b). Because of a history of volatile economic indicators the bound tests represent large shocks to the baseline scenario. The tests based on slower export growth, lower non-debt creating flows and combined shocks result in the most significant deterioration of debt ratios, highlighting the potential vulnerability to reversals in FDI and exports. However, assuming that new borrowing is moderate and highly concessional terms, the impact of borrowing is less severe. The historical scenario results should be interpreted with caution owing the paucity of historical data.



10. **Debt relief through the HIPC Initiative, MDRI and IMF beyond-HIPC assistance would significantly improve Liberia's debt situation** (Figure 3). Assuming the full delivery of such assistance at end 2009/10, all three debt-burden indicators (PV of debt-to-GDP ratio, PV of debt-to-exports ratio, and debt service-to-exports ratio) would be significantly below their indicative thresholds. An alternative scenario factoring in modest concessional borrowing pre-completion point shows a minimal

impact on ensuing debt ratios (see text chart). This result is also robust to a scenario that assumes no iron ore exports.

Public Sector Debt Sustainability

11. **Under the baseline scenario, Liberia's public debt as a share of GDP is** expected **to decline throughout the projection period though remaining at high levels through to the end of the projection period absent debt relief** (Table 2a, Figure 4). The steady decline in the debt-to-GDP ratio is due to strong GDP growth early in the projection period and a near zero primary balance after the completion point. In the outer years, GDP growth of 3 percent is strong enough to continue contributing to the decline in the ratio.

12. **Domestic public debt is modest and largely owed to the banking sector and does not play a major role in public debt dynamics.** New public sector domestic borrowing, assumed to commence after the completion point is modest and mostly incurred in relation to repaying outstanding government debt to the central bank.[6]

13. **Sensitivity tests suggest that the trajectory of Liberia's total public debt is particularly sensitive to shocks on the real exchange rate and GDP growth** (Table 2b). Although the one-time 30 percent depreciation shock in 2008/09 (bound test B4) has a large adverse impact on debt dynamics, however this shock could be somewhat muted, given that the Liberian economy is highly dollarized and its debt is predominantly denominated in US dollars.

D. Staff Assessment

14. **The staffs assess Liberia to be in debt distress. Under the baseline scenario, external debt burden indicators remain well above their indicative thresholds** absent full delivery of debt relief through HIPC Initiative, MDRI and IMF beyond-HIPC assistance at HIPC completion point. Such debt relief would significantly improve Liberia's external debt situation and bring Liberia's debt indicators to a manageable level.

15. **Alternative scenarios and bound tests indicate that modest concessional borrowing pre-completion point would have minimal impact on Liberia's debt indicators post-completion point**. However, the achievement of a robust external debt position will depend on continued maintenance of peace, conducive economic environment that sustains real GDP growth above 5 percent as well as prudent fiscal policy and debt management. The inclusion of domestic debt in the analysis does not significantly change the overall assessment of Liberia's debt sustainability.

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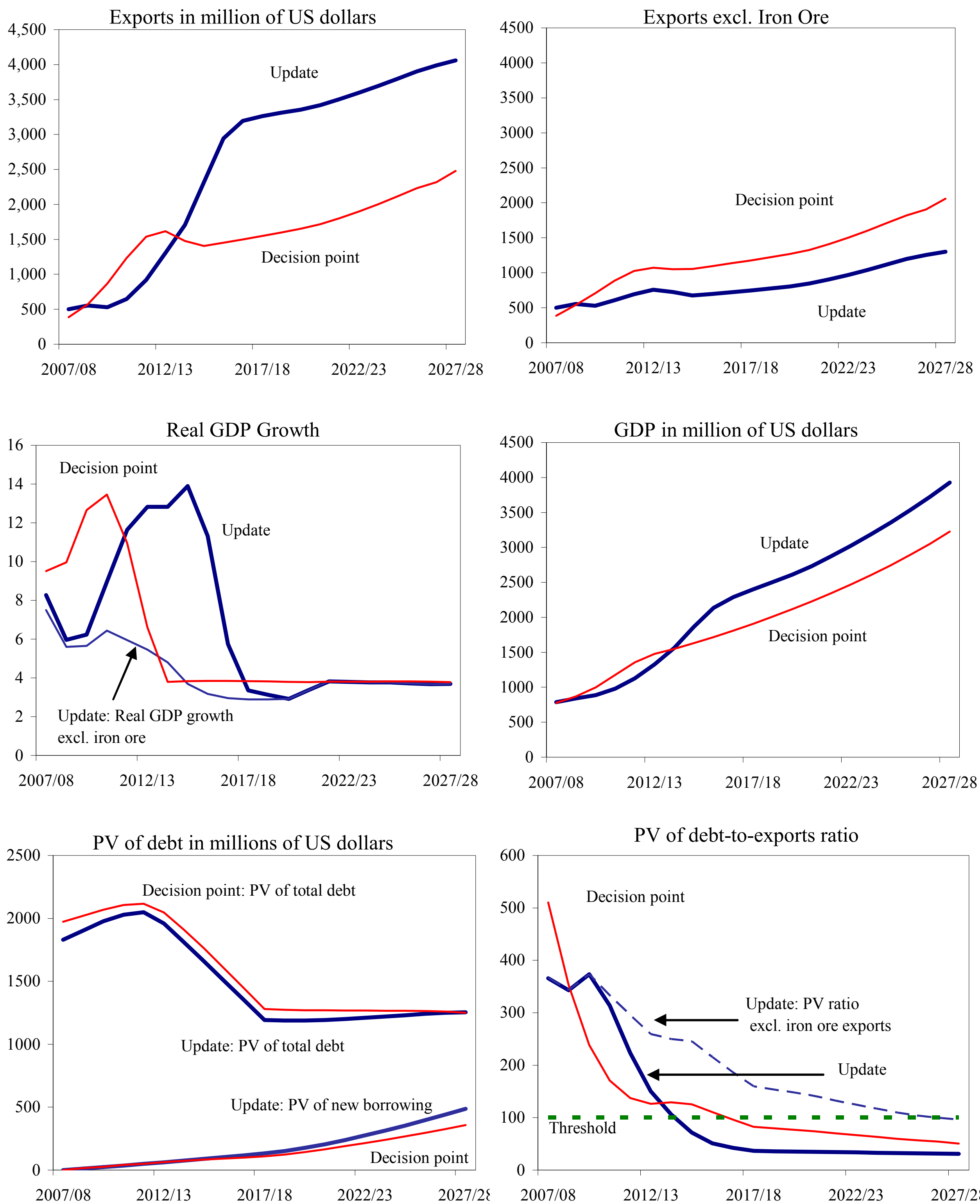
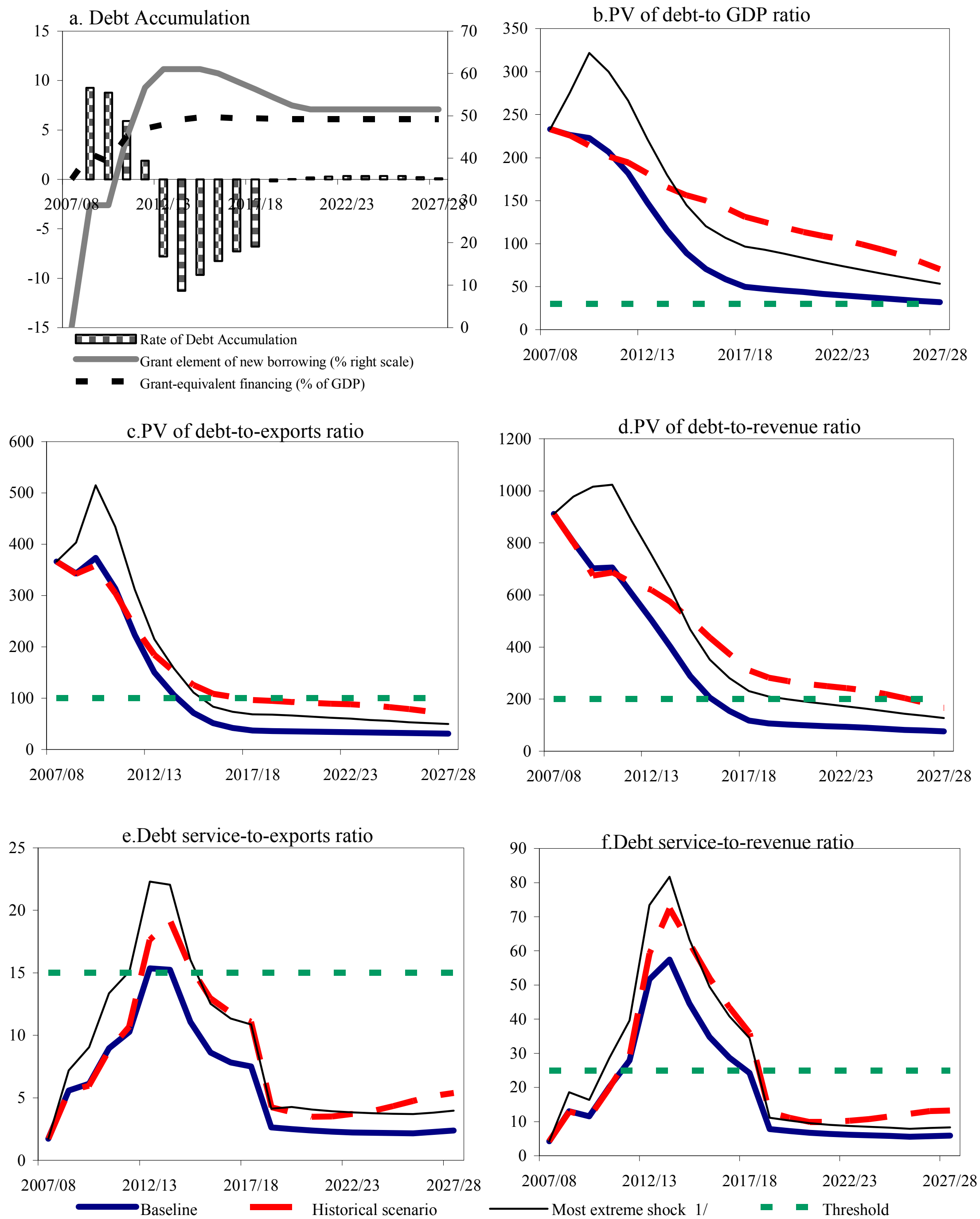
[6] 90 percent of gross domestic debt is government debt to the Central Bank of Liberia.

Figure 1. Liberia: Comparison to Decision Point DSA—Macroeconomic Assumptions, 2007/08-27/28



Source: Staff projections and simulations.

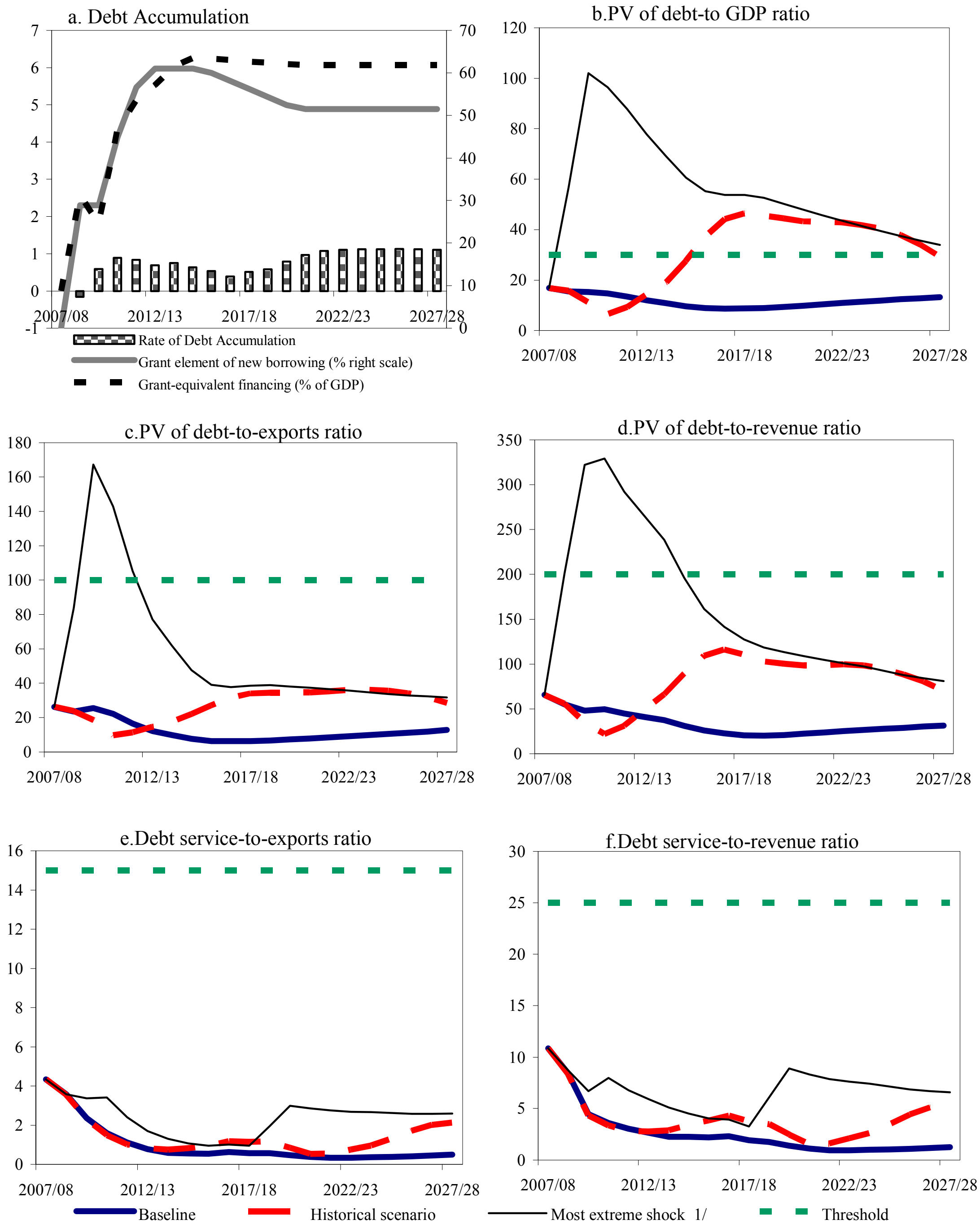
Figure 2. Liberia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2008-2028 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2018. In figure b. it corresponds to a Combination shock; in c. to a Non-debt flows shock; in d. to a Combination shock; in e. to a Exports shock and in picture f. to a One-time depreciation shock

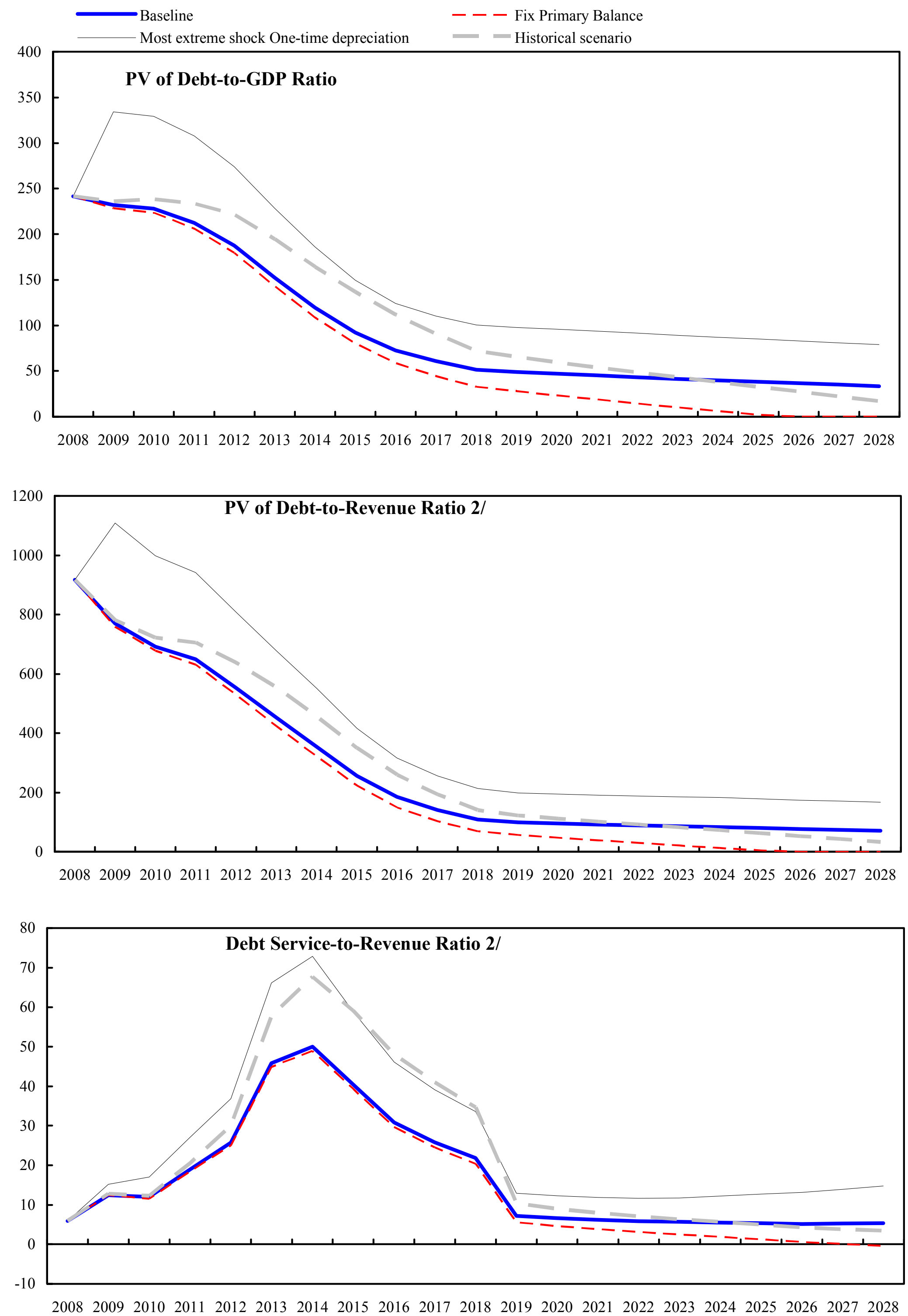
Figure 3. Liberia: Indicators of Public and Publicly Guaranteed External Debt under Completion Point Scenarios, 2008-2028 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2018. In figure b. it corresponds to a Combination shock; in c. to a Non-debt flows shock; in d. to a Combination shock; in e. to a Non-debt flows shock and in picture f. to a Combination shock

Figure 4.Liberia: Indicators of Public Debt Under Alternative Scenarios, 2008-2028 1/



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

1/ The most extreme stress test is the test that yields the highest ratio in 2018.

2/ Revenues are defined inclusive of grants.

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2005-2028 1/
(In percent of GDP, unless otherwise indicated)

	Actual	Historical Average	Standard Deviation	Projections									
										2007/08-2012/13			2013/14-2027/2
	2006/07			2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Average	2017/18	2027/28	Average
External debt (nominal) 1/	**726.2**			**282.6**	**263.3**	**250.4**	**228.9**	**201.4**	**164.2**		**59.8**	**42.8**	
o/w public and publicly guaranteed (PPG)	726.2			282.6	263.3	250.4	228.9	201.4	164.2		59.8	42.8	
Change in external debt	-127.3			-443.6	-19.3	-12.9	-21.5	-27.5	-37.2		-9.1	-1.7	
Identified net debt-creating flows	-116.9			-43.4	-11.9	-3.1	-7.3	-25.3	-28.9		-6.6	7.5	
Non-interest current account deficit	**2.4**	**-0.2**	**10.4**	**28.0**	**31.6**	**50.4**	**51.9**	**22.4**	**9.7**	32.4	**-2.0**	**10.4**	2.6
Deficit in balance of goods and services	99.1			82.3	86.1	100.5	94.6	57.4	22.3		-22.2	-2.4	
Exports	53.0			63.7	66.0	59.6	65.9	81.6	98.4		136.0	103.4	
Imports	152.0			146.0	152.1	160.2	160.5	138.9	120.7		113.7	101.0	
Net current transfers (negative = inflow)	-74.9	-21.5	15.0	-58.8	-61.2	-62.1	-55.3	-47.3	-41.2	-54.3	-26.2	-22.1	-25.9
o/w official	-60.5			-52.9	-55.5	-56.5	-50.1	-42.6	-37.2		-23.9	-19.6	
Other current account flows (negative = net inflow)	-21.8			4.5	6.8	11.9	12.6	12.4	28.7		46.4	34.9	
Net FDI (negative = inflow)	**-9.9**	**-0.2**	**0.2**	**-20.8**	**-31.1**	**-41.0**	**-44.3**	**-32.4**	**-23.3**	-32.2	**-4.6**	**-2.4**	-5.8
Endogenous debt dynamics 2/	**-109.4**			**-50.6**	**-12.5**	**-12.5**	**-14.9**	**-15.3**	**-15.3**		**0.1**	**-0.5**	
Contribution from nominal interest rate	21.4			0.9	3.2	3.1	5.4	8.0	6.6		2.3	1.1	
Contribution from real GDP growth	-62.8			-51.5	-15.7	-15.5	-20.3	-23.2	-21.9		-2.2	-1.6	
Contribution from price and exchange rate changes	-68.0			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-10.4**			**-400.2**	**-7.4**	**-9.8**	**-14.2**	**-2.3**	**-8.3**		**-2.6**	**-9.1**	
o/w exceptional financing	-21.7			-394.0	-12.5	-12.0	-5.4	0.0	0.0		0.0	0.0	
PV of external debt 4/	688.2			233.2	226.3	222.7	206.8	181.9	147.8		49.7	31.9	
In percent of exports	1299.4			366.0	343.0	373.4	313.6	223.0	150.1		36.6	30.9	
PV of PPG external debt	**688.2**			**233.2**	**226.3**	**222.7**	**206.8**	**181.9**	**147.8**		**49.7**	**31.9**	
In percent of exports	**1299.4**			**366.0**	**343.0**	**373.4**	**313.6**	**223.0**	**150.1**		**36.6**	**30.9**	
In percent of government revenues	**3154.4**			**911.8**	**804.3**	**703.1**	**705.9**	**604.9**	**504.0**		**118.0**	**76.1**	
Debt service-to-exports ratio (in percent)	**41.3**			**1.7**	**5.6**	**6.1**	**9.0**	**10.3**	**15.4**		**7.5**	**2.4**	
PPG debt service-to-exports ratio (in percent)	**41.3**			**1.7**	**5.6**	**6.1**	**9.0**	**10.3**	**15.4**		**7.5**	**2.4**	
PPG debt service-to-revenue ratio (in percent)	**100.2**			**4.3**	**13.1**	**11.5**	**20.2**	**27.9**	**51.6**		**24.2**	**5.9**	
Total gross financing need (millions of U.S. dollars)	96.8			65.1	35.8	115.8	132.8	-18.3	20.7		85.6	408.3	
Non-interest current account deficit that stabilizes debt ratio	129.7			471.6	51.0	63.3	73.4	50.0	46.9		7.1	12.0	
Key macroeconomic assumptions													
Real GDP growth (in percent)	8.7	3.0	3.4	8.3	6.0	6.2	8.9	11.6	12.8	9.0	3.4	3.7	5.5
GDP deflator in US dollar terms (change in percent)	8.7	4.0	6.2	7.8	1.1	-0.6	1.5	2.7	4.4	2.8	1.3	1.7	1.9
Effective interest rate (percent) 5/	3.0	3.0	1.0	0.1	1.2	1.2	2.4	4.0	3.9	2.1	3.4	2.6	3.3
Growth of exports of G&S (US dollar terms, in percent)	47.2	18.6	32.7	40.3	11.0	-4.6	22.2	41.9	42.2	25.5	2.1	1.8	8.4
Growth of imports of G&S (US dollar terms, in percent)	41.9	17.1	16.1	12.0	11.6	11.2	10.8	-0.7	2.4	7.9	16.8	4.7	6.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	28.9	28.9	44.8	56.7	61.0	44.1	56.2	51.5	54.3
Government revenues (excluding grants, in percent of GDP)	21.8			25.6	28.1	31.7	29.3	30.1	29.3		42.1	42.0	40.4
Aid flows (in millions of US dollars) 7/	1.5			6.1	16.8	11.4	43.7	65.4	83.7		168.9	276.5	
o/w Grants	1.5			6.1	16.8	11.4	33.4	42.9	57.2		120.9	197.9	
o/w Concessional loans	0.0			0.0	0.0	0.0	10.3	22.5	26.5		48.0	78.5	
Grant-equivalent financing (in percent of GDP) 8/	...			...	2.6	1.8	4.3	5.1	5.5		6.2	6.1	6.1
Grant-equivalent financing (in percent of external financing) 8/	...			...	64.3	59.1	78.8	83.6	87.6		87.6	86.2	87.0
Memorandum items:													
Nominal GDP (millions of US dollars)	673.1			785.3	841.2	888.0	981.7	1125.9	1326.8		2398.9	3926.4	
Nominal dollar GDP growth	18.1			16.7	7.1	5.6	10.5	14.7	17.8	**12.1**	4.7	5.4	7.6
PV of PPG external debt (in millions of US dollars)	4632.0			1831.0	1903.7	1977.5	2029.9	2048.3	1960.4		1192.7	1253.4	
(PVt-PVt-1)/GDPt-1 (in percent)				0.0	**9.3**	**8.8**	**5.9**	1.9	-7.8	3.0	-6.8	0.1	-2.8

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b.Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028
(In percent)

											Projections										
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	**2017/18**	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
PV of debt-to GDP ratio																					
Baseline	233	226	223	207	182	148	116	89	70	59	**50**	47	46	44	42	40	38	37	35	34	32
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2008-2028 1/	233	226	214	201	194	181	166	156	150	142	**131**	125	119	114	109	104	99	93	87	79	70
A2. New public sector loans on less favorable terms in 2008-2028 2	233	226	222	207	183	149	118	91	73	62	**53**	51	50	49	47	46	45	43	42	41	40
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	233	241	253	234	206	167	131	101	80	67	**56**	54	51	49	47	45	43	41	40	38	36
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	233	234	239	222	195	160	126	98	79	67	**58**	55	53	50	48	46	44	41	39	37	35
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	233	231	228	212	186	151	119	91	72	60	**51**	48	46	44	43	41	39	37	36	34	32
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	233	266	307	286	254	212	172	138	115	103	**93**	90	85	80	76	71	67	63	59	55	51
B5. Combination of B1-B4 using one-half standard deviation shocks	233	275	322	300	266	221	180	145	120	107	**97**	93	88	84	79	74	70	65	61	57	54
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	233	322	317	294	258	210	164	126	100	83	**70**	67	64	62	59	56	54	52	50	47	45
PV of debt-to-exports ratio																					
Baseline	366	343	373	314	223	150	106	72	51	42	**37**	36	35	35	34	34	33	32	32	31	31
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2008-2028 1/	366	342	359	305	238	184	152	125	109	102	**96**	95	93	91	89	88	85	83	79	74	68
A2. New public sector loans on less favorable terms in 2008-2028 2	366	342	373	314	224	152	108	73	53	44	**39**	39	39	39	39	39	38	38	38	38	38
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	366	343	373	313	223	150	106	71	51	42	**36**	36	35	35	34	33	33	32	32	31	31
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	366	457	574	483	344	233	166	113	82	69	**61**	60	59	58	57	55	54	53	51	50	49
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	366	343	373	313	223	150	106	71	51	42	**36**	36	35	35	34	33	33	32	32	31	31
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	366	403	515	434	312	215	158	111	84	74	**69**	68	66	64	62	60	58	55	53	51	50
B5. Combination of B1-B4 using one-half standard deviation shocks	366	437	516	435	312	215	158	111	83	73	**68**	67	66	64	62	60	57	55	53	51	49
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	366	343	373	313	223	150	106	71	51	42	**36**	36	35	35	34	33	33	32	32	31	31
PV of debt-to-revenue ratio																					
Baseline	912	804	703	706	605	504	400	288	206	155	**118**	107	103	99	96	93	90	86	82	79	76
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2008-2028 1/	912	802	675	686	646	619	573	505	437	373	**311**	282	269	258	250	243	233	219	203	187	167
A2. New public sector loans on less favorable terms in 2008-2028 2	912	802	702	707	608	509	407	295	213	163	**126**	116	113	111	108	106	105	102	99	97	94
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	912	855	797	800	686	571	453	326	233	175	**133**	121	116	112	108	105	102	97	93	89	86
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	912	830	754	757	650	545	437	318	230	176	**137**	125	119	115	110	106	102	97	92	89	84
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	912	821	721	724	620	516	410	295	210	158	**120**	109	105	101	98	95	92	88	84	81	77
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	912	946	970	978	845	722	596	448	337	270	**221**	202	192	183	174	165	157	147	138	130	122
B5. Combination of B1-B4 using one-half standard deviation shocks	912	978	1016	1024	885	755	623	468	351	281	**230**	210	199	190	181	172	164	153	144	136	128
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	912	1143	1000	1003	860	716	568	409	292	219	**167**	151	145	140	135	131	127	122	116	112	107

Table 1b.Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028 (continued)
(In percent)

Debt service-to-exports ratio

Baseline	2	6	6	9	10	15	15	11	9	8	**8**	3	2	2	2	2	2	2	2	2	2
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2008-2028 1/	2	6	6	9	11	18	19	15	13	12	**11**	4	4	3	4	4	4	4	5	5	5
A2. New public sector loans on less favorable terms in 2008-2028 2	2	6	6	9	10	15	15	11	9	8	**8**	3	3	3	3	3	3	3	3	3	3
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	2	6	6	9	10	15	15	11	9	8	**8**	3	2	2	2	2	2	2	2	2	2
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	2	7	9	13	15	22	22	16	13	11	**11**	4	4	4	4	4	4	4	4	4	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	2	6	6	9	10	15	15	11	9	8	**8**	3	2	2	2	2	2	2	2	2	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	2	6	7	11	12	16	16	12	9	8	**8**	4	5	5	5	5	4	4	4	4	4
B5. Combination of B1-B4 using one-half standard deviation shocks	2	6	7	11	12	16	16	12	9	8	**8**	4	5	5	5	5	4	4	4	4	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	2	6	6	9	10	15	15	11	9	8	**8**	3	2	2	2	2	2	2	2	2	2

Debt service-to-revenue ratio

Baseline	4	13	12	20	28	52	57	45	35	29	**24**	8	7	7	6	6	6	6	6	6	6
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2008-2028 1/	4	13	11	20	29	59	72	62	52	43	**36**	13	11	10	10	10	11	11	12	13	13
A2. New public sector loans on less favorable terms in 2008-2028 2	4	13	12	20	28	52	58	45	35	29	**25**	8	8	7	7	7	7	7	7	7	7
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	4	14	13	23	32	59	65	51	39	33	**27**	9	8	8	7	7	7	7	6	6	7
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	4	13	12	21	29	52	58	45	35	29	**24**	9	9	8	8	7	7	7	7	7	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	4	13	12	21	29	53	59	46	36	29	**25**	8	7	7	7	6	6	6	6	6	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	4	13	13	24	31	55	60	47	36	30	**25**	12	15	14	13	13	12	12	11	11	11
B5. Combination of B1-B4 using one-half standard deviation shocks	4	14	14	26	33	58	64	49	39	32	**27**	13	15	14	14	13	13	12	12	12	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	4	19	16	29	40	73	82	63	49	41	**34**	11	10	10	9	9	9	8	8	8	8
Memorandum item:																					
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	51	51	51	51	51	51	51	51	51	51	**51**	51	51	51	51	51	51	51	51	51	51

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a.Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004/05-2027/28
(In percent of GDP, unless otherwise indicated)

	Actual	Historical	Standard	Estimate	Projections								
		Average 5/	Deviation							2007/08-2012/13			2007/08-2012/1
	2006/07			2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Average	2017/18	2027/28	Average
Public sector debt 1/	731.2			286.0	265.8	252.7	230.8	203.8	166.2		60.8	43.8	
o/w foreign-currency denominated	726.2			282.6	263.3	250.4	228.9	201.4	164.2		59.8	42.8	
Change in public sector debt	-128.8			-445.2	-20.1	-13.1	-21.9	-27.0	-37.6		-9.2	-1.7	
Identified debt-creating flows	-124.2			-489.1	-19.9	-15.4	-24.0	-28.9	-38.1		-10.0	-2.7	
Primary deficit	-3.8	-1.3	1.5	-2.2	1.5	-0.8	-0.5	0.6	0.5	-0.1	0.5	0.9	0.7
Revenue and grants	22.0			26.3	30.1	33.0	32.7	33.9	33.6		47.2	47.0	
of which: grants	0.2			0.8	2.0	1.3	3.4	3.8	4.3		5.0	5.0	
Primary (noninterest) expenditure	18.2			24.1	31.7	32.2	32.2	34.5	34.1		47.7	47.9	
Automatic debt dynamics	-99.6			-107.7	-18.0	-11.1	-17.9	-21.6	-24.2		-0.8	-1.2	
Contribution from interest rate/growth differential	-110.1			-104.4	-16.2	-10.8	-18.8	-21.3	-24.2		-0.8	-1.2	
of which: contribution from average real interest rate	-41.4			-48.6	-0.2	4.8	2.0	2.7	-1.0		1.4	0.4	
of which: contribution from real GDP growth	-68.7			-55.8	-16.1	-15.6	-20.8	-24.1	-23.2		-2.3	-1.6	
Contribution from real exchange rate depreciation	10.5			-3.3	-1.7	-0.3	0.9	-0.2	0.0		...	...	
Other identified debt-creating flows	-20.8			-379.2	-3.5	-3.5	-5.6	-8.0	-14.4		-9.7	-2.3	
Privatization receipts (negative)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-20.8			-379.2	-3.5	-3.5	-5.6	-8.0	-14.4		-9.7	-2.3	
Other (specify, e.g. bank recapitalization)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-4.6			43.9	-0.2	2.3	2.0	1.9	0.5		0.8	1.0	
Other Sustainability Indicators													
PV of public sector debt	710.8			241.6	232.0	228.0	212.2	187.4	152.3		51.3	33.3	
o/w foreign-currency denominated	705.8			238.3	229.4	225.6	210.3	185.0	150.3		50.3	32.3	
o/w external	703.8			236.9	228.2	224.4	209.2	184.0	149.5		50.3	32.3	
PV of contingent liabilities (not included in public sector debt)	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	19.6			-0.7	5.3	3.1	5.7	9.3	16.7		11.7	4.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	3225.1			917.2	769.8	691.8	649.0	553.0	452.8		108.8	70.9	
PV of public sector debt-to-revenue ratio (in percent)	3258.1			945.0	824.5	719.8	724.3	623.1	519.3		121.8	79.4	
o/w external 3/	3226.3			926.7	810.9	708.5	714.0	611.9	509.8		119.4	76.9	
Debt service-to-revenue and grants ratio (in percent) 4/	106.2			5.9	12.5	12.0	19.0	25.7	45.8		21.8	5.4	
Debt service-to-revenue ratio (in percent) 4/	107.3			6.1	13.3	12.4	21.1	28.9	52.5		24.4	6.0	
Primary deficit that stabilizes the debt-to-GDP ratio	125.0			443.0	21.7	12.3	21.5	27.6	38.1		9.7	2.5	
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	8.7	3.0	3.4	8.3	6.0	6.2	8.9	11.6	12.8	9.0	3.4	3.7	5.5
Average nominal interest rate on forex debt (in percent)	3.0	0.2	0.3	0.1	1.2	1.2	2.4	4.0	3.9	2.1	3.4	2.6	3.2
Average real interest rate on domestic debt (in percent)	-11.2	-9.4	2.3	-11.0	-3.3	-0.8	-3.0	-0.1	-2.8	-3.5	3.3	2.6	2.2
Real exchange rate depreciation (in percent, + indicates depreciation)	1.4	0.5	8.0	-0.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	12.6	7.6	8.8	12.5	3.5	1.0	4.4	6.5	7.5	5.9	4.2	4.6	4.8
Growth of real primary spending (deflated by GDP deflator, in percent)	0.6	5.1	34.2	0.4	0.4	0.1	0.1	0.2	0.1	0.2	0.1	0.0	0.1
Grant element of new external borrowing (in percent)	...	…	…	...	28.9	28.9	44.8	56.7	61.0	44.1	56.2	51.5	...

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

1/ Data covers central government debt. Domestic debt data was reconciled in 2006/07.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b.Liberia: Sensitivity Analysis for Key Indicators of Public Debt 2008-2028

	Projections							
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2017/18	2027/28
PV of Debt-to-GDP Ratio								
Baseline	242	232	228	212	187	152	51	33
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	242	236	238	234	222	195	72	17
A2. Primary balance is unchanged from 2008	242	229	223	206	179	143	33	0
A3. Permanently lower GDP growth 1/	242	234	232	218	194	160	65	92
A4. Alternative Scenario :[Costumize, enter title]	243	233	229	228	228	222	173	112
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	242	248	264	249	224	186	87	115
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	242	231	228	212	187	152	51	33
B3. Combination of B1-B2 using one half standard deviation shocks	242	241	248	233	209	172	74	90
B4. One-time 30 percent real depreciation in 2009	242	334	329	308	274	228	100	79
B5. 10 percent of GDP increase in other debt-creating flows in 2009	242	241	237	221	195	159	56	38
PV of Debt-to-Revenue Ratio 2/								
Baseline	917	770	692	649	553	453	109	71
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	917	781	722	706	638	555	141	33
A2. Primary balance is unchanged from 2008	917	759	678	631	530	425	69	0
A3. Permanently lower GDP growth 1/	917	775	703	664	572	473	137	192
A4. Alternative Scenario :[Costumize, enter title]	921	943	901	972	991	989	811	525
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	917	821	797	752	652	545	183	242
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	917	766	690	648	552	452	108	70
B3. Combination of B1-B2 using one half standard deviation shocks	917	796	750	707	609	506	156	189
B4. One-time 30 percent real depreciation in 2009	917	1109	999	942	809	679	213	168
B5. 10 percent of GDP increase in other debt-creating flows in 2009	917	800	719	675	576	473	119	80
Debt Service-to-Revenue Ratio 2/								
Baseline	6	12	12	19	26	46	22	5
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	6	13	12	21	30	58	35	3
A2. Primary balance is unchanged from 2008	6	12	12	18	25	45	20	0
A3. Permanently lower GDP growth 1/	6	13	12	19	26	47	24	11
A4. Alternative Scenario :[Costumize, enter title]	6	15	15	25	39	78	72	19
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	6	13	14	22	30	52	27	16
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	6	12	12	19	26	46	22	5
B3. Combination of B1-B2 using one half standard deviation shocks	6	13	13	20	28	50	25	12
B4. One-time 30 percent real depreciation in 2009	6	15	17	27	37	66	34	15
B5. 10 percent of GDP increase in other debt-creating flows in 2009	6	12	13	20	27	47	22	6

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Statement by the IMF Staff Representative on Liberia
May 6, 2009

This statement summarizes developments in Liberia since the issuance of the staff report (www.imf.org). The information that has become available does not change the thrust of the staff appraisal.

1. **The program through end-March 2009 is on track**. All fiscal and monetary quantitative targets were met (on preliminary data) as was a performance criterion on the audit of government accounts.

2. **Recent economic data are consistent with program projections**. The 12-month inflation rate for March remained stable at 7 percent. The exchange rate against the U.S. dollar depreciated during March, but the annual depreciation rate remains moderate at approximately 4.5 percent. The net foreign asset holdings of commercial banks remained high through March, while the net foreign exchange position of the central bank improved as programmed. The merchandise trade deficit widened significantly during the first quarter of 2009 compared to 2008, mostly as a result of a decline in rubber exports, Liberia's main export product.

3. **There is a risk of a revenue shortfall through June 2009, but the program revenue target for fiscal year 2009/10 remains within reach.** The revenue projection for the fiscal year through June 2009 assumes an upfront payment of US$20 million related to an iron ore mining concession, but this payment may now slip into the next fiscal year. This shortfall would likely be covered through higher-than-expected budget support grants from the African Development Bank that could cover about half of the shortfall; for the remainder, the authorities envisage expenditure reductions through deferral of community development fund spending and other non-priority expenditures, partly reflecting also expenditure capacity constraints. Staff confirmed with authorities during a recent staff visit that the program revenue target for 2009/10 remains feasible. The 2009/10 budget is expected to be finalized shortly; the authorities indicated that they remain committed to a balanced cash-based budget with revenue estimates broadly in line with program projections.

4. **On April 16, 2009, Liberia reduced its foreign debt by buying back US$1.2 billion in outstanding government debt at a discount of nearly 97 percent of face value**. The operation was concluded with the payment of US$38 million to retire 25 commercial claims, lowering Liberia's foreign debt to less than US$2 billion. Most of the remaining debt would be cancelled when Liberia reaches the completion point under the Heavily Indebted Poor Country (HIPC) initiative. The buyback was made possible through contributions to the IDA Debt Reduction Facility including from Germany, Norway, the United Kingdom, and the United States.

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FOR IMMEDIATE RELEASE
May 7, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under PRGF for Liberia and Approves US$10.5 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Liberia's economic performance under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The decision will enable Liberia to draw immediately an amount equivalent to SDR 7 million (equivalent to about US$10.5 million), bringing total disbursements under the arrangement to SDR 221.26 million (about US$332.2 million).

The Executive Board also granted Liberia waivers for temporary deviations and a delay in meeting performance criteria relating to the ceiling on expenses of the Central Bank, the establishment of a functioning anti-corruption Commission and the ceiling on new domestic arrears. The Executive Board also approved the modification of the performance criterion on the ceiling of new external borrowing, and completed the financing assurances review for Liberia.

The three-year PRGF Arrangement amounting to 239.02 million (about US$358.8 million) was approved on March 14, 2008 (see Press Release No 08/52).

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

"The Liberian authorities are to be commended for their solid economic and financial policy performance under increasing adverse global conditions, including adherence to the balanced budget principle and the realization of fiscal revenue targets. In the period ahead, as the global financial crisis is expected to have an adverse impact on economic growth, continued sound policy implementation will be needed to strengthen the foundations for economic growth and contribute to poverty reduction.

"Encouraging progress has been made in advancing legislative reforms. The Amendments to the Liberia Revenue Code are an important step towards establishing best practice in the granting of investment incentives, and the Public Financial Management Law will provide a sound legal foundation for improving the effectiveness, transparency, and accountability of government operations. In addition, a number of welcome institutional advances have been realized, including the merger of the Bureau of the Budget into the Ministry of Finance and the development of a macro-fiscal framework.

"The Liberian authorities' commitment to a balanced cash-based budget provides an important anchor for fiscal policy. Challenges for the period ahead include broadening the revenue base through tax reforms, strengthening public financial management to raise expenditure efficiency and expanding budget support.

"Progress has been also been made in enhancing economic and financial governance, including through the establishment of an operational anti-corruption commission. Continued improvements in this area will be of critical importance for sustained economic progress.

"Liberia's buyback of nearly all outstanding external commercial debt at a discounted rate is an encouraging development. In the period ahead, the update of the authorities' debt strategy will provide an opportunity to establish principles that ensure the maintenance of debt sustainability," Mr. Lipsky said.

Statement by Samuel Itam, Executive Director for Liberia
May 6, 2009

Introduction

1. The Liberian authorities appreciate the ongoing support of Staff, Management and Executive Directors in tackling the tremendous challenge of rebuilding the Liberia economy following two decades of war. Rebuilding the economy is essential for boosting the capacity for job creation and poverty reduction that are critical to sustaining peace. Since 2005, the new regime has secured political, social and macroeconomic stability and undertaken significant reforms. However, the authorities have had to work under extremely tight budgetary conditions due to a sizable debt burden. Nevertheless, positive performance has been sustained and it is on this basis, together with the authorities' strong commitment to continued strong program implementation, that we seek Executive Directors' support for completion of this second review under the PRGF arrangement, and for the financing assurances review for the third disbursement under the PRGF.

2. Quantitative and structural performance criteria were met in the period through end-December 2008, albeit with some temporary deviations and a delay, for which waivers are being sought.

3. My authorities are in broad agreement with the assessment of the staff reports. We would like to make the following points for emphasis and clarification.

The Monrovia port

4. Consideration is being given to a new port rehabilitation project which will be instrumental in creating new jobs, helping to reduce business costs significantly and resuscitating trade flows with Liberia. The authorities have requested limited concessional borrowing for the port infrastructure, assuring that safeguards are in place. The borrowing would be consistent with treatment of other HIPCs, will not undermine debt sustainability after the completion point, and is directed at an urgent and important facility necessary to increase trade and economic activity. The authorities will involve the World Bank, with their advice for project feasibility and execution risks being an important safeguard.

Overall economic and program performance

5. The program has advanced significantly despite the global recession.

    - The fiscal program remains on track, with the revenue target exceeded in 2008/09 and the balanced budget target being maintained for 2009/10. Given the lack of fiscal space for a stimulus and enhanced safety nets, the tax policy package for 2009/10 will reduce the top marginal income tax rates to levels closer to regional rates, while sales tax will increase from 7 percent to 10 percent. The budget will be tight, necessitating increased expenditure efficiency and spurring efforts to enhance tax collection. The authorities will also need to scale up their appeal to donors for expanded budget support.

- Given the high level of dollarization, there is little monetary policy flexibility. Broad exchange rate stability has been maintained and inflation has dropped from a peak of 26.5 percent in August 2008 to around 7 percent in March 2009. With the global recession, it is projected to decline further to an average of 2 percent in 2009. Progress has been made in bank supervision with off-site and on-site inspections now being conducted on a quarterly and half yearly cycle, respectively. In the foreign exchange market, sales and purchases auction regulations were approved and have been published. In the area of safeguards, the use of International Financial Reporting Standards for 2008 audited accounts is on track.

- The sharp reduction in global interest rates has reduced the income of the Bank of Liberia significantly. Therefore, a review of the foreign exchange reserves investment policy is necessary to try to resolve this sizable challenge. The inability to better staff the Central Bank is also placing additional strain on current human and operational resources, and the authorities would benefit from enhanced TA and backstop support from the Fund and other donors at this time.

- In addition to the establishment of the Anti-Corruption Commission, various measures have been taken to set up supporting institutions. These include the legal taskforce established in the Ministry of Justice which prosecutes cases resulting from the ongoing audits by the General Auditing Commission (GAC); and measures that are underway to establish a new criminal court to deal specifically with corruption cases. In addition, updated legislation that defines corrupt practices and provides a code of conduct that requires asset declaration by public servants and protects whistle blowers is awaiting passage.

Constrained budget

6. In so far as budget management is concerned, this is an especially difficult time as the authorities will be required to make a sizable debt service payment to the World Bank over the next twelve months that was not foreseen. Given the cash-based budget, the authorities are appealing for budget support to help create the critical fiscal space needed.

Support in mobilizing resources

7. The Ministries of Finance and Development are establishing a database to track aid to Liberia. The template used provides basic data on sources of aid, commitments and disbursements. We encourage staff to support the authorities in this exercise by liaising with partners to brief them on budget support and concessional financing needs and to facilitate the supply of the required data.

Completion point

8. A critical trigger for the completion point is the implementation of the new public financial management (PFM) law and supporting financial regulations. The authorities expect the law to be in place this month. Also, the Anti-Corruption Commission became fully operational in December 2008. Given the urgent need for debt relief and the associated fiscal space, the authorities would like the completion point to be reached by end-2009, being fully aware that they would have to demonstrate that the new PFM law is effective in all its essential elements. The authorities appreciate the continued support and guidance of the Fund and donor partners as they work to achieve this. Also, my authorities note that for the completion point to be reached by end-2009, the Anti-Corruption Commission may not have been in operation for the full 12-month period earlier envisaged. It is in this regard that they would value the due consideration and flexibility of Executive Directors. Securing the completion point will be key in resolving the country's debt overhang decisively and providing the current administration with the political mileage needed to sustain the reform program. It will also give the authorities a little more flexibility as they respond to the impacts of the global crisis over the next two years.

Conclusion

The authorities remain strongly committed to prudent economic and financial policies. Continued strong donor support is critical to achieving the program objectives. In this regard, we encourage donors to sustain and enhance their support in order to build on progress so far and to help ensure that the current administration delivers a visible peace dividend. In particular, budget support to tide the country through the current global crisis and disbursements to support the operations of the Anti-Corruption Commission would be of significant benefit to the program.