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Liberia: Third 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; Informational Annex; and Press Release

In the context of the Third 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, the following documents have been released and are included in this package:

- The staff report for the Third 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 October 28, 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 December 2, 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 Press Release summarizing the decision taken by the Executive Board to complete the review.

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*
Informational Annex

*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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LIBERIA

Third 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 Seán Nolan and Dhaneshwar Ghura

December 2, 2009

- Messrs. Lane (head), Oestreicher and Yoon, and Ms. Nnaji (all AFR), Mr. Cipollone (SPR), and Mr. Sobolev (Resident Representative) conducted discussions for the third review under the PRGF-supported program in Monrovia during October 15-28, 2009. Mr. Graham (World Bank) attended the discussions. The mission was joined by Ms. Sayeh (AFR) at the wrap-up stage.

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

- The second program review was completed on May 6, 2009. Outstanding purchases and loans amounted to SDR 564 million (436.55 percent of quota) at end-October 2009. SDR 4.44 million (3.4 percent of quota) becomes available upon completion of the third 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 slowed economic growth as expected in 2009, but recovery is expected in 2010 with acceleration in logging and agricultural production.** Medium-term prospects remain favorable, though heavily dependent on the start of iron ore production in 2011 and continued political stability.

- **The program remains on track**. All performance criteria (PCs) for end-June 2009 were met, except the PC on total revenue collection. Staff supports the authorities' request for a waiver on the basis that the deviation was temporary and did not jeopardize key program objectives. Structural reform commitments were largely met, albeit some with delays.

- **The 2010 quantitative and structural reform program is appropriately ambitious**. The fiscal program firmly addresses the overly optimistic revenue and spending estimates in the 2009/10 budget with a revised spending plan. Structural reforms focus on strengthening public financial management, financial market development, and trade facilitation.

- **The recent SDR allocation will be held as reserves**.

- **Significant advances were achieved in implementing the HIPC completion point floating triggers,** and staff anticipate that implementation of the remaining triggers will be completed in 2010.

I. Introduction

1. **The political and security situation in Liberia remains stable**. Cooperation between the Executive and the Legislature has improved following leadership changes in the Senate and the House of Representatives. The United Nations peacekeeping force of over ten thousand soldiers and police remains the cornerstone of security through to presidential and legislative elections in November 2011.

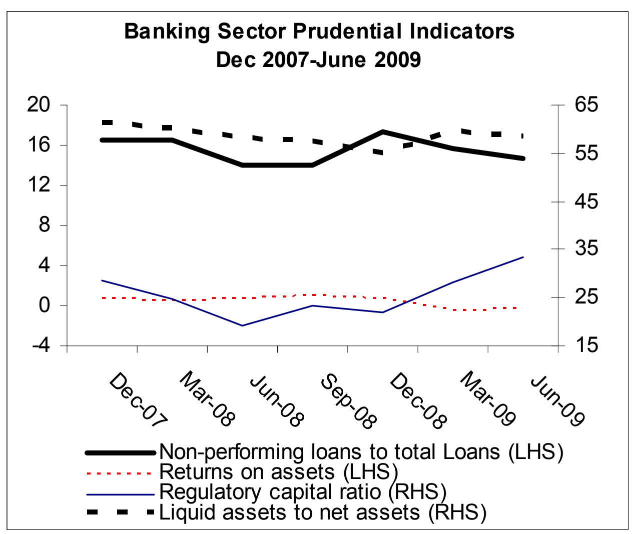
II. Recent Developments and Performance Under the Program

2. **The global crisis has slowed exports, investment and economic growth** (Table 1 and Figure 1). Difficulties are most acute in the rubber sector, which has increased rural unemployment, and there are delays in foreign investment. Nonetheless, growth remains positive and broadly in line with projections made at the time of the second review—though much reduced from the double digit growth envisaged under the original program.

3. **The downturn has affected the exchange rate more than expected**. Despite an improvement in the current account due to lower-than-expected imports, the exchange rate against the U.S. dollar depreciated by 11 percent during January–October 2009. As a result, average inflation is likely to remain above 7 percent in 2009, 5 percentage points higher than projected, but still significantly lower than its 2008 level. The real exchange rate has been broadly stable.

4. **The external reserve position is much improved** (Table 2 and Figures 2–3). The Central Bank of Liberia (CBL) accumulated net foreign exchange reserves modestly higher than programmed through end-September. Gross reserves were boosted in August by SDR 103 million from the general and special SDR allocations, raising reserve coverage to 2.1 months of goods and services imports (3.2 months coverage non-aid imports).

5. **The financial sector continues to expand** (Table 3 and MEFP ¶11). Competition has increased with the entry of two new foreign owned banks (7 of 8 licensed banks are foreign owned).While capital and liquidity are high, the share of nonperforming loans is significant and the return on assets remains near zero.



6. **In FY2008/09, revenues fell short of program objectives and spending was trimmed in order to maintain a balanced cash budget and to avoid accumulating new arrears**[1] (Table 4 and Figure 4). Total revenue for the financial year fell short of program objectives by US$19 million (2¼ percent of GDP). Tax revenue overperformed, but nontax revenue fell short by 4¼ percent of GDP due to technical delays in a mining project signing bonus and the sale of forestry leases. The authorities responded with sufficient spending cuts to meet the performance criterion on the overall deficit, mostly from current expenditure.

Fiscal Outturn (Cash Basis), 2008/09

	2nd Review	Outturn
	(Millions of US dollars)	
Total revenue and grants	253.5	234.9
Total revenue	236.7	211.3
Tax revenue	179.5	190.0
Non-Tax Revenue	57.2	21.3
Grants	16.8	23.6
Total Expenditure	272.8	248.9
Current Expenditure	235.5	215.1
Capital Expenditure	37.3	33.8
Overall balance (including grants)	-19.2	-14.0
	(Percent of GDP)	
Total revenue and grants	30.1	27.2
Total expenditure	32.4	28.8
Overall balance (including grants)	-2.3	-1.6

Source: Liberian authorities.

7. **Liberia's ambitious structural reform program continues to advance, albeit with some delays due to limited implementation capacity**. An external audit of 2007/08 government accounts was completed on schedule (performance criterion; end-March 2009). The Public Financial Management Act (PFM) was enacted in September 2009, with supporting regulations issued in December (benchmark; end-June 2009). New accounting standards were adopted in November (structural benchmark: end-June 2009). The revised chart of accounts for government, originally a structural benchmark for end-June 2009, was also delayed and is now expected to be completed in March 2010 for the 2010/11 financial year (revised structural benchmark). All other benchmarks were met or are on track.

[1] The fiscal year runs from July to June.

III. HIPC Completion Point

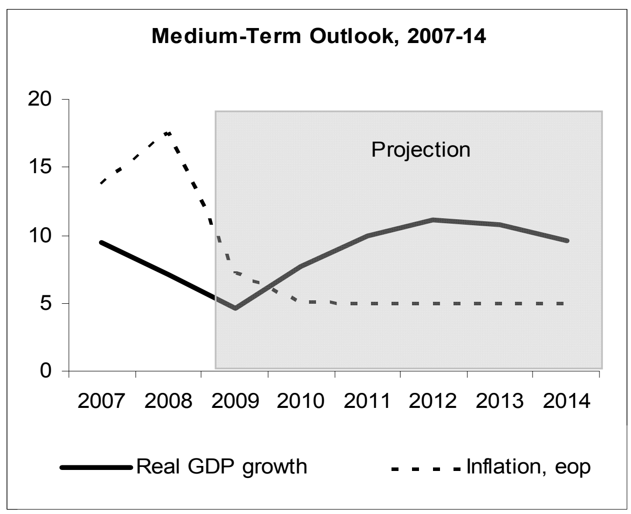
8. **The authorities significantly advanced implementation of HIPC completion point floating triggers** (MEFP Table 3). Progress includes: expansion of the availability of a basic health services package at government health facilities; validation of resource revenues by the Extractive Industries Transparency Initiative; regular publication of domestic and external debt data; adoption of the PFM Act and accompanying financial regulations. In light of slow progress in implementing the Poverty Reduction Strategy, mainly due to capacity constraints, the authorities targeted numerous specific 90-day deliverables to be implemented through November 2009.

9. **Staff anticipate that implementation of the remaining triggers will be completed in 2010**. This concerns, in particular, implementation of the PFM Act and supporting regulations, revisions to the Investment Incentive Act and regularization of the education ministry payroll.

IV. Policy Discussions

A. Macroeconomic Framework and Outlook

10. **The Liberian economy is projected to recover in 2010, while inflation moderates** (Table 5). Increased output of timber and food crops contribute to a projected pick-up of growth to 7½ percent in 2010.[2] In the forestry sector, production plans of companies that have acquired surface rights indicate a substantial increase of output and exports. A strong expansion is likely from traditional agriculture (food crops) as government incentive programs and improved extension services take hold. Rising commodity prices would support these trends. Inflation, however, is expected to moderate as the external position improves and the exchange rate stabilizes.



11. **Medium-term prospects remain favorable**. Growth is expected to rise to double digits over 2011–13 with the recommencement of iron ore production and positive spillover effects on other sectors. The current account deficit would increase from FDI-financed

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[2] Pending compilation of national accounts data, projections of the level and rate of change of GDP remain subject to considerable uncertainty.

imports. Tax revenue from the two largest iron ore projects are projected to start in 2011–12 and reach about US$260 million by 2014 (17 percent of GDP). Key downside risks to the outlook include a deterioration in the security situation, political instability and delays in iron ore investments. On the upside, higher-than-projected commodity prices could accelerate investment in the mining and commercial agriculture sectors.

B. Fiscal Program

12. **The 2009/10 approved budget differed significantly from the program fiscal projections**. Budget revenue estimates exceeded previous program projections by 8½ percentage points of GDP due to: inclusion of revenues from unratified concessions, overly optimistic projections of gains from tax administration, and from assumptions on tax policies that were not fully reflected in subsequent amendments to the Liberia Revenue Code. Revenue losses resulted from a reduction of the top personal income tax rate from 35 to 20 percent—5 percent more than anticipated—and from the omission of offsetting increases in the sales tax rate. As a result, the estimated net cost of the tax package (about 1½ percent of GDP) was significantly higher than expected. As expected, the top corporate income tax rate is reduced from 35 to 25 percent beginning in 2010—to align the tax regime with regional norms.

13. **The authorities took measures to base the 2009/10 fiscal program on realistic revenue and expenditure assumptions and maintain the fiscal anchor of a balanced cash-based budget**.

- In consultation with staff, the authorities identified and deducted US$60 million of revenue at risk from the budget revenue estimates (16 percent reduction).[3] An equivalent amount of expenditure—less US$1 million to be financed by additional use of deposits—was identified in a consultative process with the Ministries and Agencies concerned, and deducted from spending plans. Priority was given to maintaining the level of social and other priority spending at or above 60 percent of total revenue and grants (new indicative target, MEFP ¶16).[4]

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[3] After this reduction, the remaining increase in revenue over 2008/09 is fully accounted for by nontax revenue, including $57 million from iron ore payments and $11 million from forestry.

[4] Social and other priority spending is defined in the authorities' Poverty Reduction Strategy as spending on peace and security, economic revitalization, governance and the rule of law, and infrastructure and basic services. Relative to the original budget, the fiscal program reduces expenditure on community and social services by 11 percent and on rule of law and public safety by 12 percent, against 18 percent for other expenditures.

Liberia: Fiscal Outturn and Program, 2008/09-2009/10

	2008/09 Outturn	2009/10 Fiscal program
	(Millions of US dollars)	
Total revenue and grants	234.9	309.3
Total revenue	211.3	283.8
Tax revenue	190.0	188.6
Non-Tax Revenue	21.3	95.2
Grants	23.6	25.5
Total Expenditure	248.9	301.0
Current Expenditure	215.1	237.4
Capital Expenditure	33.8	63.6
Overall balance (including grants)	-14.0	8.3
	(Percent of GDP)	
Total revenue and grants	27.2	34.1
Tax revenue	22.0	20.8
Total expenditure	28.8	33.2
Overall balance (including grants)	-1.6	0.9

Source: Liberian authorities and IMF staff estimates.

- The budget outlook will be re-evaluated in January 2010 in consultation with staff and a report submitted to the Legislature. If the resource envelope is determined to be larger than presently anticipated, spending plans will be adjusted accordingly (MEFP ¶15).

- The authorities plan to submit revenue-enhancing amendments to the revenue code in January 2010 (MEFP ¶15).

C. Monetary Policy

14. **The authorities welcome the recent SDR allocation that has boosted foreign exchange reserves**. They noted that the strengthened reserve position would support ongoing efforts to dedollarize, which are also promoted through increased use of the Liberian dollar in government spending and payment of taxes. In addition, the improved reserve position offers opportunities to reorient reserve management to increase income—with due regard to risk and liquidity needs—and to intervene to reduce exchange rate volatility should this be necessary (MEFP¶6–7, ¶9).

15. **The CBL remains committed to a balanced budget through to the HIPC Initiative completion point and to improving internal controls:**

- The 2009 budget is on track. The 2010 budget is under preparation and will be consistent with a cash-based balance through to the completion point (MEFP ¶9).

- The authorities reported progress in implementing the recommendations of the 2008 safeguard assessments report and special audits. Following a modest-sized fraudulent transfer in May 2009, the CBL has re-evaluated and strengthened controls over its banking process. In addition, the CBL intends to address backlogs in check processing with the objective of eliminating the stock of government checks cashed but not posted (MEFP ¶10).

D. Structural Reform Agenda

Fiscal reforms

16. **The authorities have developed with donor support an ambitious program to improve public financial management and revenue administration**. They intend to implement this program over the next year with technical assistance from the Fund, World Bank and other multilateral and bilateral donors (Text table, MEFP ¶20–22, ¶26).

Liberia: Fiscal Reforms and Measures, 2009–10

Date	Measure
Public Financial management	
September 2009	Public Financial Management (PFM) Act approved by the Legislature aimed at providing the legal framework and institutional structure for reforms going forward;
September 2009	Amendments to Liberian Revenue Code (LRC) enacted to clarify and reduce the scope for discretion in the granting of investment incentives;
December 2009	Public Financial management Act regulations issued to operationalize the PFM Law;
Quarterly 2010	Publication of quarterly implementation reports on the PFM law starting January 2010 to maintain momentum of the reform effort (new structural benchmark);
January 2010	Planned date for passage of Investment Act to remove discretion in the granting of investment incentives;
June 2010	Introduction of Integrated Financial Management Information System (IFMIS) to promote accountability and transparency in PFM;
June 2010	Improving payroll management and control by expanding direct bank transfers to the entire Monrovia payroll (new structural benchmark);
June 2010	Compiling asset registers in key ministries to better monitor government assets (new structural benchmark).

Liberia: Fiscal Reforms and Measures, 2009–10 (concluded)

Date	Measure
Strengthening tax administration	
February 2010	Installation of the ASYCUDA system in the Monrovia Free Port;
2010	Development of a three year plan for further modernization of customs in consultation with the World Customs Organization;
2010	Installation of the Integrated Tax Administration System (ITAS) in the Bureau of Internal Revenue fully compatible with IFMIS;
March 2010	Strengthening the audit function and restarting tax audits and enforcement of large taxpayers (new structural benchmark).

Financial sector development

17. **Staff support efforts to develop the infrastructure for a treasury bill market** (MEFP ¶8). Given ample banking system excess liquidity in Liberian dollars, a lack of monetary instruments for the CBL, and a potential need for short-term government financing, there is a clear case for a treasury bill market operated by the CBL as the fiscal agent. To this end the authorities intend to publish auction regulations (end-June 2010 benchmark) for the eventual launch of a short-term domestic treasury bill program after the HIPC completion point and develop a book entry system.

18. **The authorities intend to continue efforts to strengthen banking supervision** (MEFP ¶11–13)**.** The CBL completed its January-June on-site inspection reports in September 2009 (meeting an end-September 2009 structural benchmark), except for one bank that had only recently begun operations. Regulatory and supervisory frameworks for the microfinance sector have been formulated and the supervisory system for the insurance sector is under review. Given the inadequate risk management practices of commercial banks, the CBL intends, with Fund technical assistance, to move towards risk-based supervision in 2010. In this process, the normal six-month cycle of on-site inspections will be changed, where appropriate, to an annual basis.

19. **Given high foreign ownership in the banking system, staff support ongoing CBL initiatives to manage elevated cross-border risks.** A memorandum of understanding has been signed with the Central Bank of Nigeria to establish cooperation and information sharing, and memoranda with other supervisors are envisaged. Regulation of foreign exchange risk management has been enhanced by new guidelines which limit the placement of funds abroad to 50 percent of foreign currency deposits in “A” credit-rated banks. The unfavorable global economic environment and the limited avenues for lending in Liberia pose risks for loan quality and banking sector profitability. To mitigate these risks to bank

solvency, the CBL has mandated increases in minimum capital to US$8 million by end-2009 and to US$10 million by the end-2010 and expects compliance on a timely basis.

Business climate and governance

20. **Further improvements in the business climate and governance should help to attract the investment necessary to accelerate growth**. Building on substantial progress in the past year, reforms in 2010 will concentrate on strengthening commercial courts and systems to register property. To facilitate trade, import permit declarations will be eliminated, except for a small positive list of items justified on national security grounds (end-June 2010 benchmark). Governance measures include increasing the effectiveness of the audit process and expanding operations of the Liberia Anti-Corruption Commission (MEFP ¶23).

Statistics

21. **Lack of basic national accounts data remains a major weakness, despite advances in other economic statistics**. Reporting and publication of debt and balance of payments data has improved. However, progress has been slow in compiling national accounts where a much-needed establishment survey is delayed to early 2010 following a low initial response rate (December 2009 benchmark). The eventual compilation of national accounts will require additional technical assistance to process the survey results and for general strengthening of the statistical agency LISGIS (MEFP ¶27).

E. Financing Assurances and Debt Strategy

22. **The authorities remain committed to reaching agreements on terms comparable to other creditors with four official non-Paris Club creditors for debts of US$129.1 million and creditors holding US$20.5 million of commercial debt that did not participate in the April 2009 buyback operation**. In total, these creditors amount to 3.1 percent of the nominal debt stock at the HIPC decision point.

23. **Staff welcome the authorities' revised debt management strategy aimed at strengthening institutional and technical capacity to monitor debt developments, sustainability, and risks** (MEFP ¶25). The newly established Debt Management Committee (envisaged in the PFM Act) and Debt Management Unit, should improve capacity to plan and monitor all public borrowing, including guarantees. The authorities confirmed that they are not seeking new borrowing for rehabilitation of the National Port, pending completion of negotiations for private management of the port.[5]

[5] An adjustor applies to the external borrowing performance criterion for port rehabilitation.

V. Program Monitoring

24. **Staff support the proposed program modifications and phasing for remaining loan disbursements:**

- **The floor on total revenue collection for end-December 2009 will be adjusted for shortfalls in non-tax mineral revenues**. This change is motivated by the difficulties experienced in accurately projecting the timing of these payments.

- **The net foreign exchange position of the CBL for end-December 2009 will be modified to include SDR holdings**. In view of the magnitude of the recent allocation relative to the net foreign exchange position, the exclusion of SDR holdings is no longer warranted or desirable.

- The schedule and requirements for the sixth and seventh loan disbursements are shown in Tables 7–9.

25. **Staff support a waiver of non-observance of one performance criterion.** The waiver covers a deviation on total revenue collections at end-June 2009 on the basis that it was temporary and did not jeopardize key program objectives.

VI. Staff Appraisal

26. **Under difficult external circumstances the Liberian authorities continue to effectively implement their economic program**. The exchange rate adjusted appropriately to a weaker external position, government spending was curtailed in line with available resources, the cash-based balanced budget was maintained without accumulating new arrears, and potential cross-border risks to the banking system are being addressed.

27. **Staff support the authorities' repeated adjustments to fiscal policies triggered by adverse or unexpected revenue developments**. Faced with revenue shortfalls in the first half of 2009 expenditure plans were revised. The risk management strategy adopted after passage of the 2009/10 budget underpins the authorities' continued strong commitment to maintaining a balanced cash budget based on realistic revenue projections. Staff particularly welcome efforts to safeguard expenditures linked to implementation of the Liberia Poverty Reduction Strategy through the adoption of a floor on PRS spending as share of revenue and grants.

28. **The staff commend the progress made by the CBL in building net foreign exchange reserves and support the decision to use the SDR allocation to boost reserves**. The stronger reserve position strengthens the authorities' capacity to manage shocks to the balance of payments and the exchange rate while complementing efforts to promote dedollarization. Actions taken to strengthen bank supervision are appropriate in the context of more elevated cross-border risks faced by the largely foreign owned banking system.

29. **Implementation of structural measures under the program continues to be generally good although subject to some delay.** In particular, staff welcome the passage of the Public Financial Management (PFM) Act and the implementing regulations. The authorities' implementation plans over the coming 12 months are critical to improving the budget process and mobilizing additional on-budget development assistance.

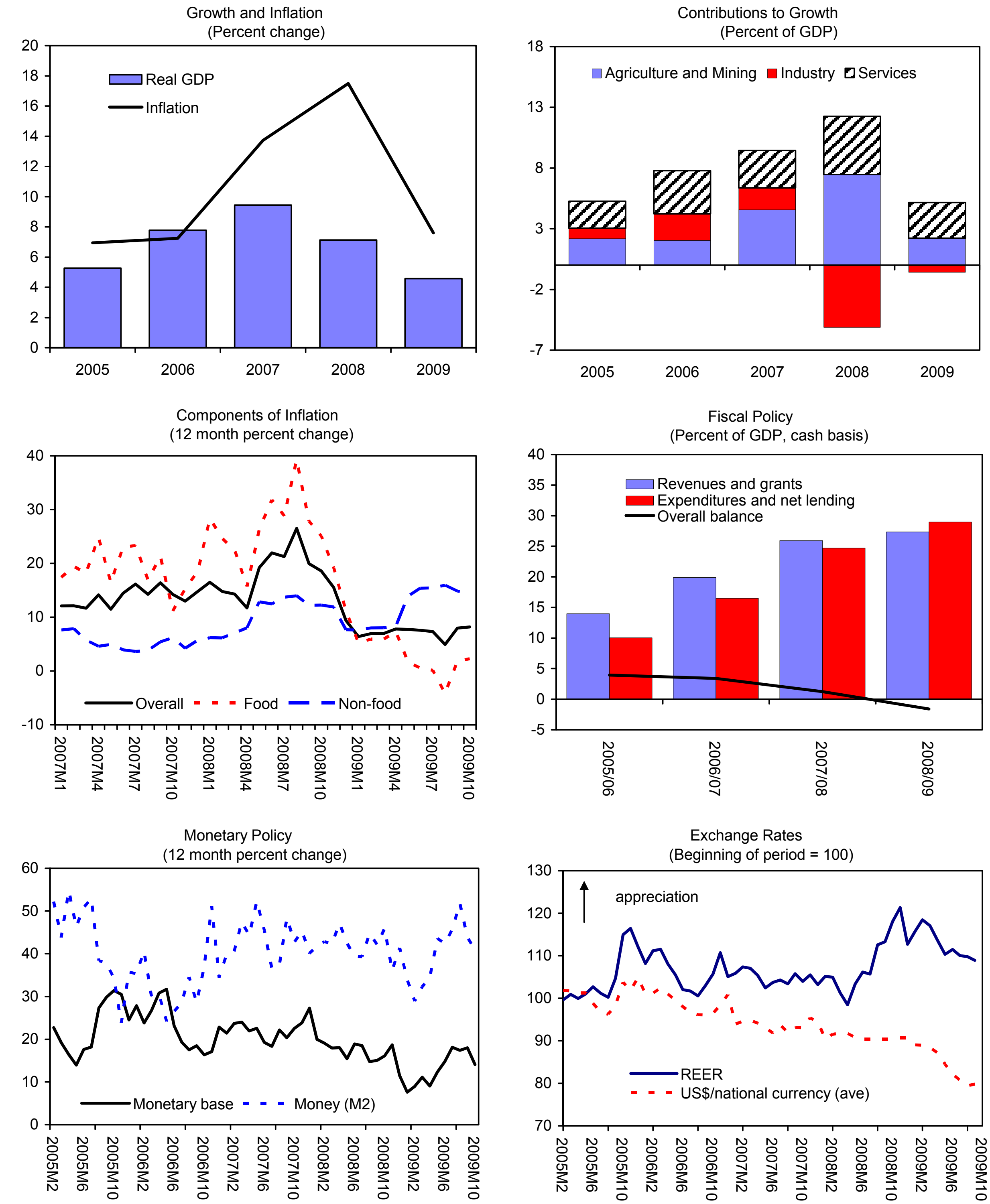
30. **Implementation of the HIPC Initiative floating completion point triggers has advanced substantially since the last program review**. Staff considers that the main risks ahead relate to satisfactory implementation of the PFM act, enacting legislation on investment incentives and completing the regularization of the education ministry payroll. Staff welcome revisions to the debt management strategy. Staff will reach understandings with the authorities on the implications of comprehensive debt relief for macroeconomic policies in advance of the completion point.

31. **The authorities have proposed an appropriately ambitious structural reform program for 2010**. Implementation risks remain substantial due to limited capacity but are mitigated by the high political priority attached to timely implementation and considerable supportive technical assistance.

32. **The absence of national accounts statistics is a serious constraint to formulating macroeconomic policy**. Technical assistance should be sought and this gap addressed expeditiously.

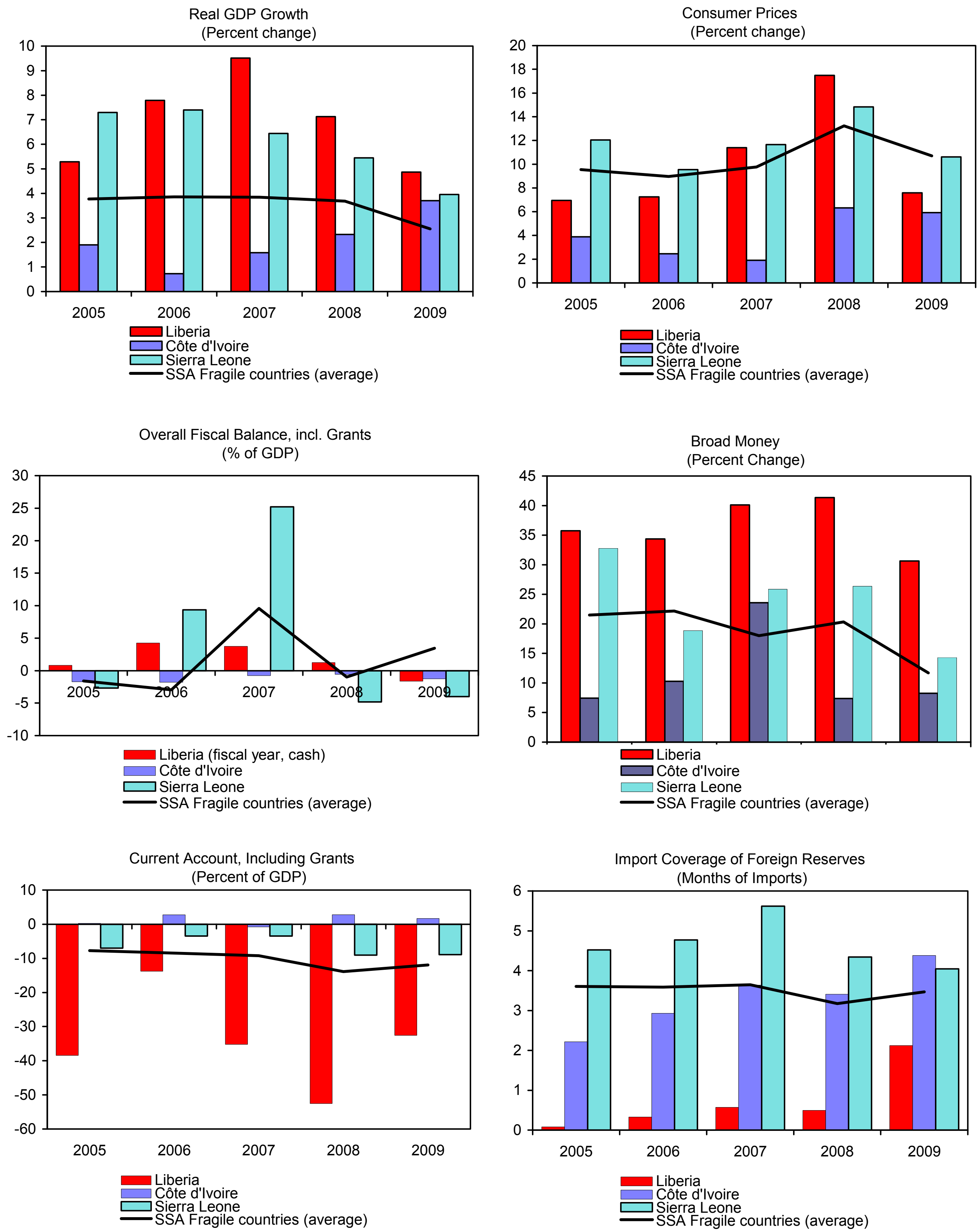
33. On the basis of progress so far and the authorities' continued commitment to deliver the key objectives of the program going forward, staff recommends completion of the third review under the PRGF arrangement and the financing assurances review for the fourth disbursement under the PRGF.

Figure 1. Liberia: Recent Economic Developments, 2005-09



Sources: Liberian authorities and Fund staff estimates and projections.

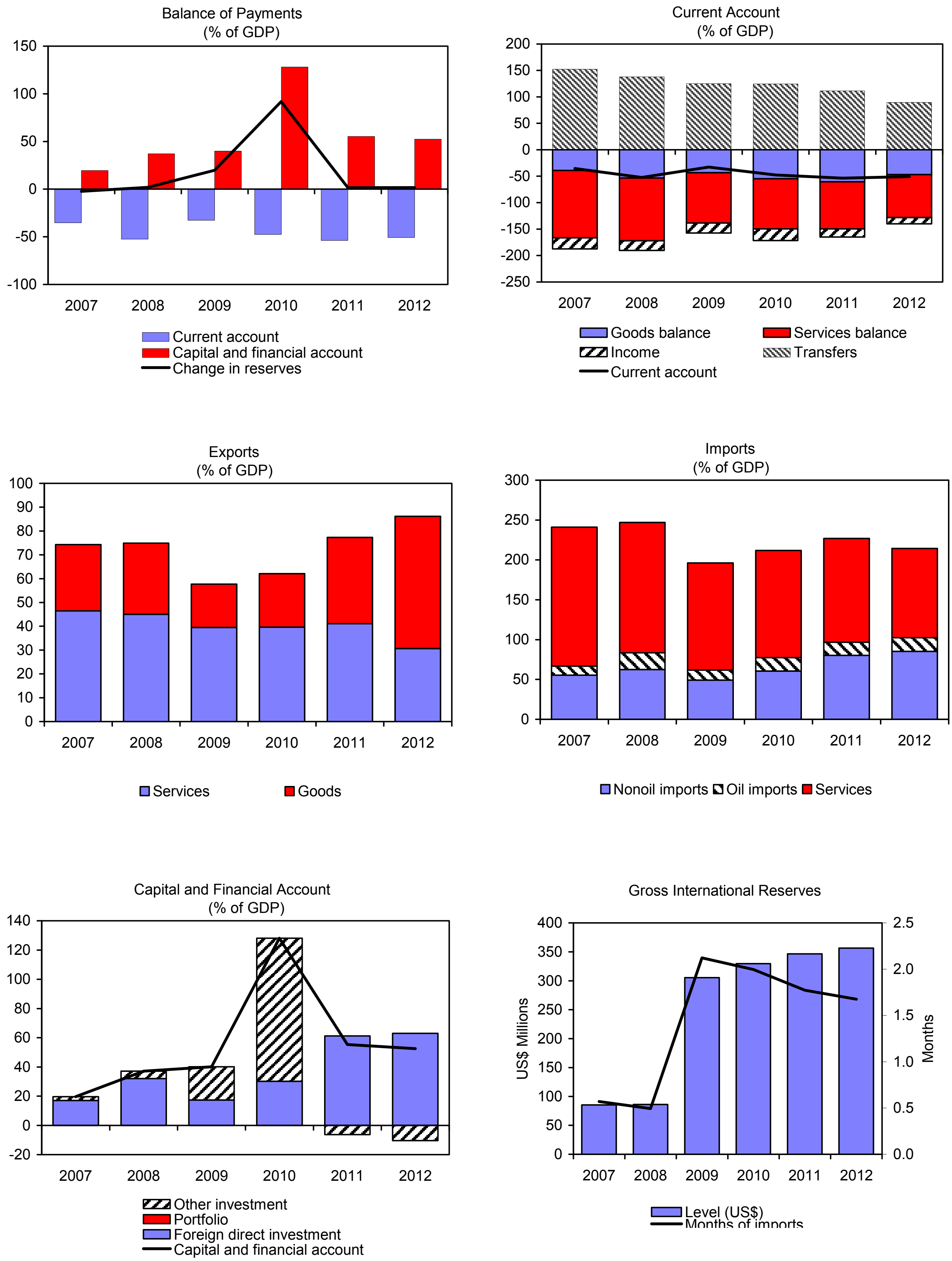
Figure 2: Cross Country Comparison 2005-09



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

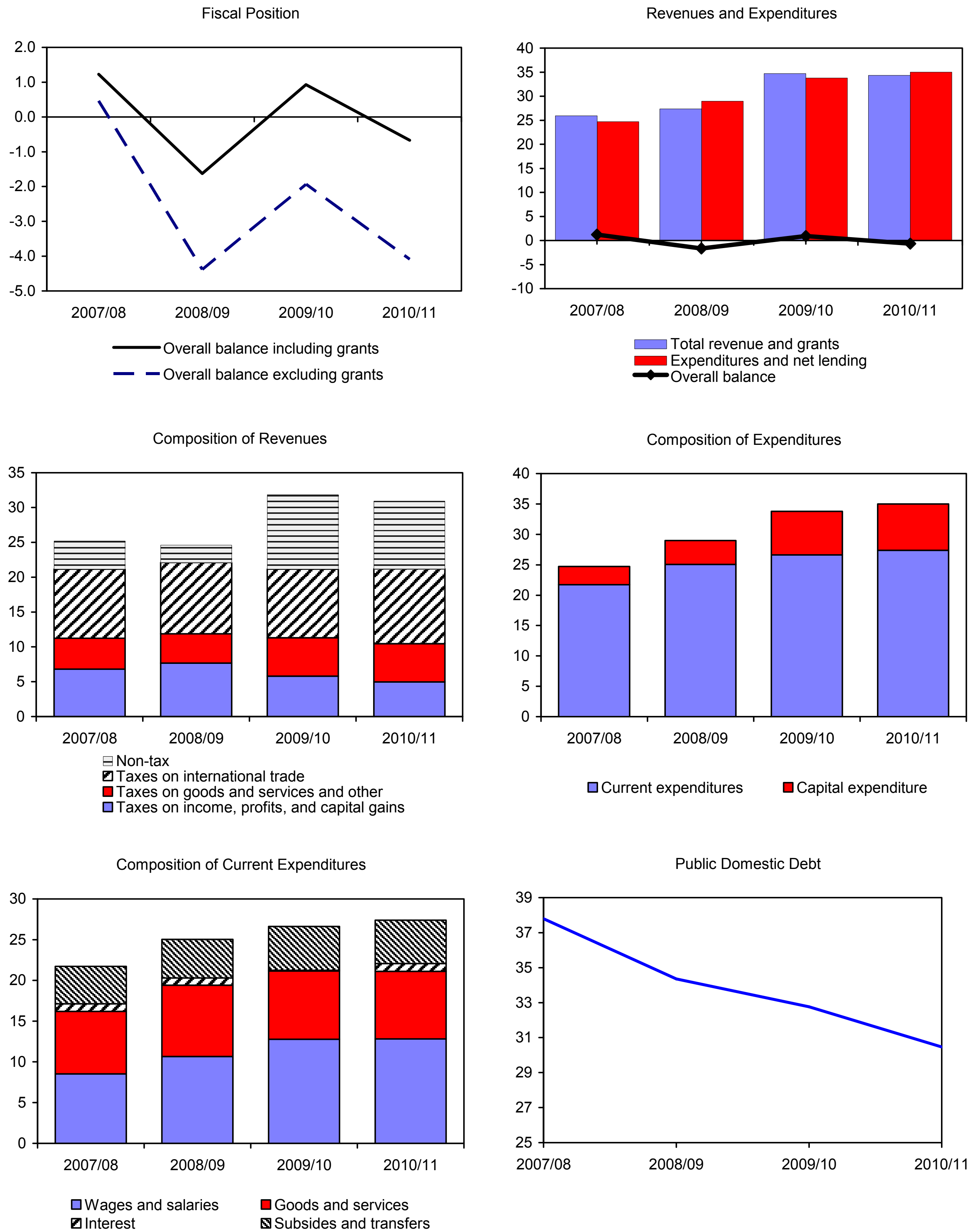
Note: Fragile countries are Burundi, Central African Republic, Comoros, Congo Dem. Rep., Côte d'Ivoire, Eritrea, The Gambia, Guinea, Guinea-Bissau, Liberia, São Tomé & Príncipe, Sierra Leone, and Togo.

Figure 3. Liberia: External Outlook, 2007-12



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

Figure 4. Liberia: Fiscal Developments and Outlook, 2007/08-2010/11
(Percent of GDP)



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

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

	2007	2008	2009		2010		2011
			2nd Review[1/]	Proj.	2nd Review[1/]	Proj.	Proj
	(Annual percentage change, unless otherwise indicated)						
National account and prices							
GDP at constant prices	9.4	7.1	4.9	4.6	7.5	7.7	10.0
GDP deflator (US dollars)	11.3	6.4	-3.4	-1.0	2.1	-1.2	0.4
GDP at market prices (millions of US dollars)	745.5	849.6	861.1	879.6	945.7	935.9	1,033.3
Nominal GDP per capita (US dollars)	198.8	215.5	208.3	212.8	219.4	217.1	231.2
Consumer prices (average) [2/]	13.7	17.5	2.0	7.6	4.5	4.7	5.0
Consumer prices (end of period) [2/]	14.7	9.4	4.0	10.5	5.0	4.5	5.0
External sector							
Exports, f.o.b.	28.6	22.2	-57.2	-37.0	55.0	31.0	78.4
Imports, f.o.b	13.0	42.2	-1.1	-23.4	26.4	33.2	38.2
Terms of trade (deterioration -) [3/]	-13.5	-15.7	-17.9	-15.7	12.5	-3.7	5.9
Average exchange rate (local currency per U.S. dollar)	61.3	63.2	…	68.4 [6/]	…	…	…
Nominal effective exchange rate change (depreciation -)	-10.7	-7.6	…	-4.1 [7/]	…	…	…
Real effective exchange rate (depreciation -)	-1.2	3.6	…	1.1 [7/]	…	…	…
Gross official reserves, months of imports	0.6	0.5	0.5	2.1	0.5	2.0	1.8
Gross official reserves (millions of US dollars)	85.3	86.2	81.3	305.4	93.9	329.7	346.4
Central government budget [4/]							
Total revenue and grants	73.3	39.5	22.5	13.5	15.5	31.7	6.9
Of which: total revenue	73.6	36.7	17.9	5.2	18.8	34.3	5.0
Total expenditure and net lending	100.2	60.2	38.4	26.3	6.4	20.9	12.0
Of which: current expenditure	84.1	62.9	36.0	24.2	9.4	10.4	11.2
capital expenditure	354.3	43.4	56.1	41.5	-12.6	88.4	15.3
	(Annual percentage change; beginning period stock of broad money, unless otherwise indicated)						
Money and credit							
Net foreign assets	20.9	2.7	15.9	-28.7	283.6	282.0	7.2
Net domestic assets	19.2	38.7	-10.8	59.4	-269.9	-271.5	6.1
Net claims on central government	25.9	10.5	2.8	43.3	-281.4	-273.9	2.1
Claims on nongovernment	16.4	16.8	-3.9	11.2	4.7	3.8	5.5
Other items (net)	-23.2	11.4	-9.6	4.9	-1.9	-1.4	-1.5
Broad money (M2) [5/]	40.1	41.4	5.1	30.6	13.7	9.6	12.4
Reserve money (annual percentage change)	26.7	13.1	14.2	8.3	17.5	20.7	17.8
Velocity (GDP-to-M2)	3.8	3.2	3.1	2.7	3.0	2.8	2.9
Money multiplier (M2/M0)	3.3	4.2	3.4	5.3	3.3	4.7	4.5
	(Percent of GDP, unless otherwise indicated)						
External sector							
Current account balance							
(including official grants)	-35.2	-52.5	-43.2	-32.6	-62.7	-47.5	-53.8
(excluding official grants)	-182.0	-186.2	-175.8	-153.1	-182.3	-166.4	-157.8
Trade balance	-39.0	-53.5	-64.8	-43.5	-71.2	-54.9	-60.5
Exports, f.o.b.	27.9	29.9	13.2	18.2	18.6	22.4	36.2
Imports, f.o.b	-66.9	-83.4	-77.9	-61.7	-89.7	-77.3	-96.7
Central government budget [4/]							
Total revenue and grants	21.9	25.9	30.1	27.4	33.0	34.7	34.3
Of which: total revenue	21.6	25.2	28.1	24.6	31.7	31.8	30.9
Total expenditure and net lending	18.1	24.7	32.4	29.0	32.7	33.8	35.0
Of which: current expenditure	15.7	21.7	28.0	25.0	29.0	26.6	27.4
capital expenditure	2.5	3.0	4.4	3.9	3.7	7.1	7.6
Overall fiscal balance (including grants)	3.7	1.2	-2.3	-1.6	0.3	0.9	-0.7
Overall fiscal balance (excluding grants)	3.5	0.5	-4.3	-4.4	-1.0	-1.9	-4.1

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

1. IMF Country Report No. 09/177
2. The Monrovia CPI was replaced in February 2007 with a more comprehensive harmonized CPI.
3. The base year is updated from 1997 to 2005 (2005 = 100).
4. Fiscal year ending in June on a cash basis (debt service payments shown after all debt relief).
5. Defined as Liberian currency outside banks plus demand, time, and savings deposits in Liberian and US dollars.
6. October 2009.
7. September 2009.

Table 2. Liberia: Balance of Payments, 2007–11

	2007	2008	2009		2010		2011
		Est.	2nd Review	Proj.	2nd Review	Proj.	Proj.
			(Millions of U.S. dollar)				
Trade balance	-290	-455	-548	-383	-661	-514	-626
Exports, f.o.b.	208	254	111	160	173	210	374
Of which: rubber	184	225	78	94	83	73	80
Imports, f.o.b	-499	-709	-660	-543	-834	-723	-1,000
Services (net)	-953	-1,007	-819	-835	-870	-887	-920
Of which: UNMIL services 1/	-535	-488	-478	-455	-456	-414	-418
Income (net)	-154	-156	-168	-167	-213	-208	-158
Of which: public interest payments due 2/	-143	-93	-103	-103	-105	-105	-10
Of which: IMF	0	-16	-26	-26	-27	-27	-5
Current transfers	1,135	1,172	1,171	1,099	1,162	1,164	1,148
Donor transfers (net)	1,094	1,136	1,122	1,060	1,111	1,113	1,075
Of which: UNMIL transfers	705	646	630	646	600	600	550
Private transfers (net)	41	36	48	39	51	51	73
Current account balance	-262	-446	-365	-287	-583	-445	-556
Current account balance, excluding grants	-1,357	-1,582	-1,488	-1,347	-1,694	-1,558	-1,630
Capital and financial account (net)	146	316	304	353	1,253	1,199	572
Capital account (HIPC debt relief)	2	3	4	4	4,110	2,836	5
Financial account	144	313	300	349	-2,857	-1,638	567
Foreign direct investment (net)	127	272	323	153	405	283	633
Portfolio investment (net)	0	0	0	0	0	0	0
Other investment (net)	17	40	-23	195	-3,263	-1,921	-66
Official financing: Medium and long-term (net)	-2	-14	-10	153	-3,278	-2,004	16
SDR allocation	0	0	0	163	0	0	0
Disbursements	0	0	0	0	0	0	20
Amortization 3/	-2	-14	-10	-10	-3,278	-2,004	-4
Private financing (net) 4/	19	54	-13	42	15	83	-82
Errors and omissions	-47	43	0	0	0	0	0
Overall balance	-163	-87	-61	66	670	754	16
Financing	163	87	61	-66	-670	-754	-16
Change in net foreign assets (increase -) 5/	17	-15	-47	-174	-776	-860	-16
Of which: Net use of Fund credit and loans 3/	0	20	17	17	-820	-820	7
Disbursements	0	880	17	17	14	14	7
Repayments	0	-860	0	0	-834	-834	0
Exceptional financing	146	103	108	108	106	106	0
Debt forgiveness	665	254	0	1,230	0	0	0
Change in arrears 6/	-665	-4,200	0	-1,230	0	0	0
Debt rescheduling plus HIPC interim debt relief 7/	146	4,048	108	108	106	106	0
Financing gap	0	0	0	0	0	0	0
Memorandum items:							
Current account balance (percent of GDP)							
Including grants	-35.2	-52.5	-43.2	-32.6	-62.7	-47.5	-53.8
Excluding grants	-182.0	-186.2	-175.8	-153.1	-182.3	-166.4	-157.8
Excluding grants and public interest payments due	-162.8	-173.4	-163.5	-138.4	-170.9	-149.6	-153.7
Trade Balance (percent of GDP)	-39.0	-53.5	-64.8	-43.5	-71.2	-54.9	-60.5
Donor transfers (net, percent of GDP)	146.8	133.7	132.6	120.5	119.5	118.9	104.0
Public sector external debt (medium and long-term)							
Debt outstanding, including arrears	4,200	4,019	4,134	2,861	135	135	142
(percent of exports of goods and services)	757.7	631.5	640.2	563.6	19	23.2	6.4
(percent of GDP)	563.3	473.0	488.4	326.1	14.5	14.4	8.5
Debt service charges (after relief)	-2.8	0.9	1.4	1.1	0.7	0.7	9.5
(percent of GDP)	-0.4	0.1	0.2	0.1	0.1	0.1	0.9
Terms of trade (2000=100)	115.8	97.7	101.0	82.3	97.0	79.3	83.9
Gross official reserves	85.3	86.2	81.3	305.4	93.9	329.7	346.4
Gross official reserves (months of imports of goods and services)	0.6	0.5	0.5	2.1	0.5	2.0	1.8
GDP at current prices	745.5	849.6	846.4	879.6	929.6	935.9	1,033.3

Sources: Liberian authorities; and Fund 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 SDR assets and excludes SDR liabilities for US$ 163.2 million.
6. Includes debt forgiveness from multilateral creditors (US$665 million) and Paris Club creditors (US$254 million).
7. Includes deferred debt service payments in the interim period.

Table 3a. Liberia: Monetary Survey, 2007–10
(In millions of US dollar; unless otherwise indicated)

	2007	2008	2009		2010	
			2nd Review	Proj.	2nd Review	Proj.
			(Central Bank Survey)			
Net foreign assets	-746.4	-764.2	-760.0	-753.6	94.8	106.3
Net domestic assets	812.0	836.7	853.5	823.4	-0.7	-24.7
Net claims on government	1,073.4	1,068.3	1,166.6	1,051.4	285.9	203.5
Claims on other public sector 1/	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	2.1	1.8	2.0	2.0	2.0	2.1
Claims on commercial banks	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net) 2/	-263.5	-233.4	-315.1	-230.0	-286.5	-230.4
Reserve Money	65.5	72.4	73.5	69.7	83.6	81.5
			(Monetary Survey)			
Net foreign assets	-695.4	-674.0	-590.4	-666.7	166.9	193.2
Of which: Fund credit and overdue charges	-858.3	-858.0	-807.9	-884.9	-44.7	-53.4
CBL's gross foreign reserves 3/	119.4	139.0	134.7	361.4	135.5	387.4
government US$-denominated deposits at CBL	50.1	36.8	22.0	42.0	19.5	40.7
commercial banks' US$-denominated deposits at CBL	34.0	52.8	53.4	56.0	52.1	57.7
CBL's net foreign exchange position 3/	35.2	49.5	59.7	263.4	63.9	289.0
Net domestic assets	887.0	938.6	866.4	973.9	115.3	135.6
Net domestic credit	1,169.8	1,193.4	1,157.1	1,188.9	395.8	348.0
Net claims on government	1,081.7	1,076.0	1,050.9	1,058.2	282.8	210.1
Of which: IMF credit and overdue charges	858.3	836.4	814.2	845.3	48.9	0.0
Claims on nongovernment	88.1	117.4	106.2	130.7	113.0	137.9
Claims on private sector	72.0	103.8	105.1	118.6	112.1	126.2
Claims on public enterprises	2.1	1.0	1.0	12.1	0.9	11.7
Claims on nonbank financial institutions	1.3	0.0	0.0	0.0	0.0	0.0
Other Items (Net)	-282.7	-254.8	-290.7	-215.0	-280.6	-212.5
Monetary aggregates						
Base money (M0)	58.2	63.3	64.3	58.3	73.2	68.7
Currency in circulation	53.1	56.8	58.8	51.3	67.2	61.3
Required reserves	5.1	6.5	5.5	6.9	6.0	7.4
Commercial bank deposits	138.6	207.7	210.3	255.8	224.2	264.7
Total demand deposits	88.7	142.4	144.1	176.0	153.7	181.9
L$-denominated deposits	8.4	12.1	12.3	13.8	13.1	14.7
US$-denominated deposits	80.3	130.2	131.9	162.2	140.6	167.1
Time, savings and other deposits	49.9	65.4	66.2	79.8	70.5	82.8
L$-denominated deposits	11.6	15.5	15.7	17.7	16.7	18.8
US$-denominated deposits	38.3	49.9	50.5	62.1	53.8	64.0
Broad money (M2)	191.6	264.5	276.0	307.2	297.7	326.0
L$ component	73.1	84.5	93.6	82.9	103.3	94.8
US$ component	118.6	180.1	182.3	224.3	194.4	231.1
Memorandum items:						
Broad money (annual change)	33.4	38.0	5.1	16.1	10.1	6.1
L$ component as percent of beginning period broad money	10.2	5.9	3.7	-0.6	4.3	3.9
US$ component as percent of beginning period broad money	23.2	32.1	1.4	16.7	5.8	2.2
Reserve money (annual change)	20.6	10.5	1.5	-3.7	13.7	16.9
Base money (annual change)	21.2	8.8	1.6	-8.0	13.8	17.8
Credit to government (annual change)	-1.6	-0.5	0.7	-1.6	-72.5	-80.1
Credit to private sector (annual change)	39.2	44.1	2.0	14.2	8.8	6.4
Velocity (GDP-to-M2)	3.9	3.2	3.1	2.9	3.3	2.9
Money multiplier (M2/M0)	3.3	4.2	3.8	5.3	3.4	4.7
CBL's gross official foreign reserves 3/	85.3	86.2	72.8	305.4	83.4	329.7
Nominal GDP	745.5	849.6	846.4	879.6	825.3	935.9

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

1. Include public enterprises and the local government.
2. Including valuation.
3. SDR holdings are included from December 2009.

Table 3b. Liberia: Monetary Survey, 2007–10
(In millions of Liberian dollar; unless otherwise indicated)

	2007	2008	2009		2010	
			2nd Review	Proj.	2nd Review	Proj.
			(Central Bank Survey)			
Net foreign assets	-46,653	-48,911	-43,909	-54,262	6,260	7,899
Net domestic assets	50,749	53,546	49,202	59,283	-43	-1,837
Net claims on government	67,088	68,370	67,292	75,701	18,738	15,130
Claims on other public sector [1/]	0	0	0	0	0	0
Claims on private sector	133	113	115	145	130	159
Claims on commercial banks	0	0	0	0	0	0
Other items (net) [2/]	-16,472	-14,937	-18,205	-16,563	-18,910	-17,127
Reserve Money	4,096	4,635	5,293	5,021	6,217	6,061
			(Monetary Survey)			
Net foreign assets	-43,462	-43,137	-38,083	-48,000	12,406	14,365
Of which: Fund credit and overdue charges	-53,642	-53,530	-52,111	-63,713	-3,326	-3,968
CBL's gross foreign reserves [3/]	7,460	8,897	8,690	26,020	10,073	28,801
government US$-denominated deposits at CBL	3,133	2,353	1,419	3,023	1,452	3,023
commercial banks' US$-denominated deposits at CBL	2,127	3,378	3,447	4,033	3,874	4,291
CBL's net foreign exchange position [3/]	2,199	3,166	3,824	18,964	4,748	21,487
Net domestic assets	55,439	60,068	55,883	70,124	7,837	10,080
Net domestic credit	73,110	76,376	74,630	85,603	26,916	25,874
Net claims on government	67,607	68,862	67,783	76,193	19,230	15,622
Of which: IMF credit and overdue charges	53,642	53,530	52,111	60,861	3,326	0
Claims on nongovernment	5,503	7,514	6,847	9,410	7,686	10,252
Claims on private sector	4,503	6,646	6,782	8,538	7,622	9,380
Claims on public enterprises	132	64	64	872	64	872
Claims on nonbank financial institutions	81	0	0	0	0	0
Other Items (Net)	-17,672	-16,308	-18,747	-15,479	-19,079	-15,794
Monetary aggregates						
Base money (M0)	3,635	4,051	4,632	4,195	5,444	5,104
Currency in circulation	3,317	3,637	4,235	3,695	4,998	4,555
Required reserves	317	414	397	500	446	549
Commercial bank deposits	8,660	13,294	13,565	18,420	15,245	19,677
Total demand deposits	5,542	9,111	9,297	12,675	10,448	13,521
L$-denominated deposits	524	776	792	997	890	1,095
US$-denominated deposits	5,018	8,335	8,505	11,678	9,558	12,426
Time, savings and other deposits	3,118	4,183	4,269	5,744	4,797	6,156
L$-denominated deposits	724	992	1,012	1,274	1,138	1,400
US$-denominated deposits	2,394	3,191	3,256	4,470	3,660	4,756
Broad money (M2)	11,977	16,931	17,800	22,115	20,243	24,232
L$ component	4,566	5,405	6,039	5,966	7,026	7,050
US$ component	7,411	11,526	11,761	16,148	13,218	17,182
Memorandum items:						
Broad money (annual change)	40.1	41.4	5.1	30.6	13.7	9.6
L$ component as percent of beginning period broad money	12.8	7.0	3.7	3.3	5.5	4.9
US$ component as percent of beginning period broad money	27.3	34.4	1.4	27.3	8.2	4.7
Reserve money (annual change)	26.7	13.1	14.2	8.3	17.5	20.7
Base money (annual change)	27.3	11.5	14.3	3.5	17.5	21.7
Credit to government (annual change)	3.4	1.9	0.7	10.6	-71.6	-79.5
Credit to private sector (annual change)	46.2	47.6	2.0	28.5	12.4	9.9
Velocity (GDP-to-M2)	3.8	3.2	3.1	2.7	3.0	2.8
Money multiplier (M2/M0)	3.3	4.2	3.4	5.3	3.3	4.7
Currency/deposits (percent; L$ only)	265.8	205.7	235.0	162.7	246.5	182.6
CBL's gross official foreign reserves [3/]	5,333	5,519	5,243	21,987	6,200	24,510
Nominal GDP	45,680	53,698	54,596	59,812	61,356	68,479

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

1. Include public enterprises and the local government.
2. Including valuation.
3. SDR holdings are included from December 2009.

Table 4a. Liberia: Fiscal Operations of the Central Government (Cash Basis), 2006/07–2010/11 [1/]
(In millions of US dollars)

	2006/07	2007/08	2008/09		2009/10		2010/11
			2nd Review	Actual	2nd Review	Proj.	Proj.
Total revenue and grants	148.3	206.9	253.5	234.9	292.7	309.3	330.8
Revenue	146.8	200.8	236.7	211.3	281.3	283.8	297.9
Tax Revenue	139.8	168.8	179.5	190.0	190.6	188.6	204.0
Taxes on income, profits, and capital gains	42.8	54.1	52.2	65.8	47.3	51.7	47.8
Taxes on goods and services	25.9	33.3	37.3	33.7	42.9	42.0	45.5
Taxes on international trade	69.7	79.1	86.0	87.9	96.3	87.9	103.2
Other taxes	1.5	2.2	4.0	2.6	4.2	6.9	7.5
Non-tax	7.1	32.0	57.2	21.3	90.6	95.2	93.8
Grants	1.5	6.1	16.8	23.6	11.4	25.5	32.9
Expenditures and net lending	123.0	197.1	272.8	248.9	290.2	301.0	337.2
Current expenditures	106.4	173.2	235.5	215.1	257.6	237.4	263.9
Wages and salaries	40.6	68.0	95.2	91.4	99.8	114.0	123.7
Goods and services	46.1	61.2	97.5	75.3	111.3	74.5	79.6
Subsides and transfers	19.1	36.6	36.4	40.9	41.9	48.1	51.4
Interest [1/]	0.5	7.5	6.3	7.5	4.6	0.8	9.1
Capital expenditure	16.6	23.9	37.3	33.8	32.6	63.6	73.4
Overall balance [2/]							
Including grants	25.3	9.8	-19.2	-14.0	2.5	8.3	-6.4
Excluding grants	23.8	3.7	-36.0	-37.6	-8.9	-17.2	-39.4
Financing	-25.3	-9.8	19.2	14.0	-2.5	-8.3	6.4
External financing (net)	-1.2	0.0	-0.3	-3.7	-0.2	-3.5	6.1
Loans	0.0	0.0	0.0	0.0	0.0	0.0	10.3
Amortization (-)	0.0	0.0	-0.3	-3.7	-0.2	-3.5	-4.3
Domestic Borrowing	-24.1	-9.8	19.5	17.7	-2.3	-4.8	0.4
Monetary Sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Monetary sector	0.0	0.0	-0.4	-0.4	-0.3	-3.6	2.4
Exceptional financing	-24.1	-9.8	19.9	18.1	-2.0	-1.2	-2.0
Payments of domestic arrears	-10.5	-6.5	-0.5	-1.6	-2.0	-5.3	-2.0
Accumulation in GOL balance at CBL (-)	-13.7	-3.3	20.4	19.7	0.0	4.1	0.0
Memorandum items:							
Total public domestic debt	297.6	301.5	…	295.0	…	292.0	293.5
Foreign currency denominated domestic debt	259.7	263.1	…	263.0	…	262.9	262.9
Medium and Long Term domestic debt	297.6	301.5	…	295.0	…	292.0	288.8
Short Term domestic debt in national currency	0.0	0.0	…	0.0	…	0.0	4.7
Valuation effect of exchange rate on LBR$ denominated debt	0.0	0.0	…	-6.1	…	-0.7	-0.9
Primary balance, including grants	25.9	17.3	-12.9	-6.5	7.1	9.1	2.7
Nominal GDP (in millions of US dollars)	678.6	797.6	841.2	858.8	888.0	891.3	963.3

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. Through 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., payments of arrears, amortization) being reported as financing items; and to the drawdown of government deposits accumulated in prior years.

Table 4b. Liberia: Fiscal Operations of the Central Government (Cash Basis), 2006/07–2010/11 [1/]
(Percent of GDP)

	2006/07	2007/08	2008/09		2009/10		2010/11
			2nd Review	Actual	2nd Review	Proj.	Proj.
Total revenue and grants	21.9	25.9	30.1	27.4	33.0	34.7	34.3
Revenue	21.6	25.2	28.1	24.6	31.7	31.8	30.9
Tax Revenue	20.6	21.2	21.3	22.1	21.5	21.2	21.2
Taxes on income, profits, and capital gains	6.3	6.8	6.2	7.7	5.3	5.8	5.0
Taxes on goods and services	3.8	4.2	4.4	3.9	4.8	4.7	4.7
Taxes on international trade	10.3	9.9	10.2	10.2	10.8	9.9	10.7
Other taxes	0.2	0.3	0.5	0.3	0.5	0.8	0.8
Non-tax	1.0	4.0	6.8	2.5	10.2	10.7	9.7
Grants	0.2	0.8	2.0	2.8	1.3	2.9	3.4
Expenditures and net lending	18.1	24.7	32.4	29.0	32.7	33.8	35.0
Current expenditures	15.7	21.7	28.0	25.0	29.0	26.6	27.4
Wages and salaries	6.0	8.5	11.3	10.6	11.2	12.8	12.8
Goods and services	6.8	7.7	11.6	8.8	12.5	8.4	8.3
Subsides and transfers	2.8	4.6	4.3	4.8	4.7	5.4	5.3
Interest [1/]	0.1	0.9	0.7	0.9	0.5	0.1	0.9
Capital expenditure	2.5	3.0	4.4	3.9	3.7	7.1	7.6
Overall balance [2/]							
Including grants	3.7	1.2	-2.3	-1.6	0.3	0.9	-0.7
Excluding grants	3.5	0.5	-4.3	-4.4	-1.0	-1.9	-4.1
Financing	-3.7	-1.2	2.3	1.6	-0.3	-0.9	0.7
External financing (net)	-0.2	0.0	0.0	-0.4	0.0	-0.4	0.6
Loans	0.0	0.0	0.0	0.0	0.0	0.0	1.1
Amortization (-)	0.0	0.0	0.0	-0.4	0.0	-0.4	-0.4
Domestic Borrowing	-3.6	-1.2	2.3	2.1	-0.3	-0.5	0.0
Monetary Sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Monetary sector	0.0	0.0	0.0	0.0	0.0	-0.4	0.2
Exceptional financing	-3.6	-1.2	2.4	2.1	-0.2	-0.1	-0.2
Payments of domestic arrears	-1.5	-0.8	-0.1	-0.2	-0.2	-0.6	-0.2
Accumulation in GOL balance at CBL (-)	-2.0	-0.4	2.4	2.3	0.0	0.5	0.0
Memorandum items:							
Total public domestic debt	43.9	37.8	…	34.4	…	32.8	30.5
Foreign currency denominated domestic debt	38.3	33.0	…	30.6	…	29.5	27.3
Medium and Long Term domestic debt	43.9	37.8	…	34.4	…	32.8	30.0
Short Term domestic debt in national currency	0.0	0.0	…	0.0	…	0.0	0.5
Valuation effect of exchange rate on LBR$ denominated debt	0.0	0.0	…	-6.1	…	-0.7	-0.9
Primary balance, including grants	3.8	2.2	-1.5	-0.8	0.8	1.0	0.3
Nominal GDP (in millions of US dollars)	678.6	797.6	841.2	858.8	888.0	891.3	963.3

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. Through 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., payments of arrears, amortization) being reported as financing items; and to the drawdown of government deposits accumulated in prior years.

Table 5. 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 prices								
Real GDP	9.4	7.1	4.6	7.7	10.0	11.1	10.7	9.5
Agriculture & fisheries	8.9	6.0	3.5	7.0	8.2	5.0	5.0	5.0
Forestry	1.0	29.4	8.1	18.9	4.9	5.5	3.7	3.7
Mining & panning	289.8	109.4	7.9	-25.3	238.2	160.6	75.3	40.0
Manufacturing	12.9	-16.7	-3.8	1.3	7.9	5.0	5.0	5.0
Services	10.4	7.6	7.2	6.7	7.3	6.4	5.1	5.2
Real GDP excl. mining	8.8	6.2	4.4	8.1	7.2	5.3	4.4	4.2
Prices								
GDP deflator	11.3	6.4	-1.0	-1.2	0.4	3.8	3.7	3.3
Consumer prices (annual average)	13.7	17.5	7.6	4.7	5.0	5.0	5.0	5.0
Consumer prices (end of period)	14.7	9.4	10.5	4.5	5.0	5.0	5.0	5.0
Real GDP per capita (in U.S. dollar)	126.4	128.9	128.5	132.7	140.8	151.5	162.9	173.4
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
Agriculture & fisheries	57.3	53.5	51.5	50.1	48.5	44.8	41.5	39.1
Forestry	8.4	10.9	12.1	14.9	13.9	13.2	12.2	11.6
Mining & panning	0.6	1.2	1.2	0.9	3.9	10.4	16.7	21.2
Manufacturing	7.3	6.0	5.7	5.3	5.2	4.8	4.5	4.2
Services	26.4	28.4	29.5	28.8	28.5	26.9	25.1	23.8
	(In percent of GDP)							
Central government operations (July–June)								
Total revenue and grants	21.9	25.9	27.2	34.1	33.6	32.2	32.4	33.2
Revenue	21.6	25.2	24.4	31.3	30.3	28.4	28.1	28.4
Grants	0.2	0.8	2.7	2.8	3.3	3.8	4.3	4.8
Total expenditure and net lending	18.1	24.7	28.8	33.2	34.3	34.0	33.9	34.8
Current expenditure	15.7	21.7	24.9	26.2	26.8	26.2	26.2	26.5
Capital expenditure	2.5	3.0	3.9	7.0	7.5	7.7	7.6	8.3
External sector								
Current account balance								
(including official grants)	-35.2	-52.5	-32.6	-47.5	-53.8	-50.8	-23.1	-22.6
(excluding official grants)	-182.0	-186.2	-153.1	-166.4	-157.8	-133.9	-89.2	-55.7
Trade balance	-39.0	-53.5	-43.5	-54.9	-60.5	-46.9	-10.7	-5.1
Exports, f.o.b.	27.9	29.9	18.2	22.4	36.2	55.5	70.8	75.5
Imports, f.o.b	-66.9	-83.4	-61.7	-77.3	-96.7	-102.5	-81.4	-80.7
Gross official reserves, months of imports	0.6	0.5	2.1	2.0	1.8	1.7	1.9	1.9
Gross official reserves (millions of US dollars)	85.3	86.2	305.4	329.7	346.4	356.6	366.6	376.1

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

Table 6. Liberia: Millenium Development Goals

	1990	1995	2000	2008
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	170.0
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	5.1
Life expectancy at birth (years)	41.0	42.0	43.0	58.0
Trade (% of GDP)	...	80.8	47.5	129.5
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)	…	…	140.0	133.0
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	46.0
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)	...	...	1.0	1.1
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, to 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	23.8	101.2
Youth unemployment rate (percent of total labor force of ages 15-24)	...	...	...	...
Internet users (per 100 people)	...	0.0	0.0	15.0
Mobile cellular subscription (per 100 people)	...	0.0	0.0	19.0

Source: World Development Indicators database, April 2009.

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

	2008 3/18-12/31	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Prospective drawings [1/]														
PRGF	214.3	11.4	8.9	4.4	-	-	-	-	-	-	-			
EFF	342.8	-	-	-	-	-	-	-	-	-	-			
Projected debt service to the Fund [2/]	0.4	0.5	3.4	6.6	35.1	83.2	104.8	105.8	106.6	106.1	55.9	4.3	2.2	0.4
Repayments and repurchases	-	-	-	-	28.6	77.9	100.7	102.7	104.5	104.9	55.6	4.3	2.2	0.4
PRGF-current	-	-	-	-	-	20.7	43.6	44.3	44.3	44.3	23.5	0.7	-	-
EFF	-	-	-	-	28.6	57.1	57.1	57.1	57.1	57.1	28.6	-	-	-
PRGF-projected	-	-	-	-	-	-	-	1.3	3.1	3.6	3.6	3.6	2.2	0.4
HIPC Interim Relief	(11.1)	(6.6)	(3.1)	-	-	-	-	-	-	-	-	-	-	-
Interest	11.5	7.1	5.7	5.7	5.7	5.0	4.1	3.1	2.1	1.1	0.2	0.03	0.01	-
PRGF-current	0.8	1.1	1.1	1.1	1.1	1.1	0.9	0.7	0.5	0.2	0.0	-	-	-
EFF	10.7	6.0	4.5	4.5	4.5	3.9	3.1	2.4	1.6	0.8	0.1	-	-	-
PRGF-projected	-	-	0.04	0.08	0.09	0.09	0.09	0.09	0.08	0.06	0.04	0.03	0.01	-
Charges		-	0.8	0.8	0.8	0.3	-	-	-	-	-	-	-	-
In percent of														
GDP	0.1	0.1	0.5	0.9	4.0	8.0	8.6	7.2	6.7	6.4	3.2	0.2	0.1	0.0
Gross Official Reserves	0.6	0.2	1.6	2.9	14.9	34.5	42.4	41.7	40.9	39.7	20.4	1.5	0.8	0.2
Exports of goods and services	0.1	0.2	1.4	2.3	14.6	36.6	48.7	51.9	51.8	51.9	26.7	2.0	1.0	0.2
Fiscal revenues (excluding grants)	0.3	0.3	1.8	3.3	16.7	34.8	38.1	30.5	24.0	19.9	9.0	0.6	0.3	0.1
Projected debt service to the Fund after HIPC and beyond-HIPC debt relief [3/]	0.4	0.5	1.2	0.2	0.2	0.2	2.3	4.3	6.0	7.4	7.1	4.3	2.2	0.4
In percent of														
GDP	0.1	0.1	0.2	0.0	0.0	0.0	0.2	0.3	0.4	0.4	0.4	0.2	0.1	0.0
Gross Official Reserves	0.6	0.2	0.6	0.1	0.1	0.1	0.9	1.7	2.3	2.8	2.6	1.5	0.8	0.2
Exports of goods and services	0.1	0.2	0.5	0.1	0.1	0.1	1.1	2.1	2.9	3.6	3.4	2.0	1.0	0.2
Fiscal revenues (excluding grants)	0.3	0.3	0.7	0.1	0.1	0.1	0.8	1.2	1.4	1.4	1.1	0.6	0.3	0.1
Fund credit outstanding	557.0	568.5	28.9	33.4	33.4	33.4	30.0	24.0	17.7	10.4	3.4	0.5	0.0	0.0
In percent of														
GDP	91.3	91.1	4.3	4.4	3.8	3.2	2.4	1.6	1.1	0.6	0.2	0.0	0.0	0.0
Gross Official Reserves	982.5	283.1	13.4	14.7	14.2	13.9	12.1	9.5	6.8	3.9	1.2	0.2	0.0	0.0
Exports of goods and services	221.7	248.7	11.9	12.0	13.9	14.7	13.9	11.8	8.6	5.1	1.6	0.2	0.0	0.0
Fiscal revenues (excluding grants)	421.9	409.2	15.5	16.9	15.9	14.0	10.9	6.9	4.0	2.0	0.5	0.1	0.0	0.0
Quota (under the 12th General Review)	431.1	440.0	22.4	25.8	25.8	25.8	23.2	18.6	13.7	8.1	2.6	0.3	0.0	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 GRA rate of charge of 1.31 percent plus 0.01 percent for burden sharing. PRGF interest rate is 0.5 percent. Projected debt service to the Fund does not take into account the temporary waiver of interest payments (until end December 2011) and new interest rates structure, which have not yet become effective.

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, 2008–2013
(US$ millions)

	Est.	Projections				
	2008	2009	2010	2011	2012	2013
I. Total financing requirement	-6,671	-2,760	-4,422	-1,651	-1,619	-1,244
Current account (excluding donor grants)	-1,582	-1,347	-1,558	-1,630	-1,595	-1,220
Amortization (excluding IMF)	-14	-10	-2,004	-4	-4	-4
Amortization (IMF credit and loans)	-860	0	-834	0	0	0
Change in NFA (increase = -)	-15	-174	-26	-16	-20	-20
Reduction in arrears (reduction = -)	-4,200	-1,230	0	0	0	0
II. Available financing	1,486	1,242	4,302	1,644	1,619	1,244
Current transfers	1,136	1,060	1,113	1,075	989	903
Capital transfers (debt forgiveness)	3	4	2,836	5	0	0
Foreign direct investment	272	153	283	633	758	322
Official medium- and long-term flows	0	0	0	20	24	28
Private Financing	75	25	69	-89	-152	-9
Required Financing = I+II	-5,184	-1,518	-120	-7	0	0
Financing	5,183	1,355	119	7	0	0
Identified financing (provisional)						
Debt forgiveness and debt relief grants	254	1,230	0	0	0	0
Debt rescheduling [1/]	4,048	108	106	0	0	0
IMF PRGF-EFF	880	17	14	7	0	0
Financing Gap	-2	-163	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	Actual Disbursement Date/ Date of Availability	Conditions for Disbursement[1]
Total : SDR 550.03 million PRGF: SDR 207.26 million EFF: SDR 342.77 million	March 14, 2008	Executive Board approval of the three-year PRGF/EFF arrangements
PRGF: SDR 7.00 million	December 29, 2008	Executive Board approval of the first review under the three-year PRGF arrangements
PRGF: SDR 7.00 million	May 14, 2009	Executive Board approval of the second review under the three-year PRGF arrangements
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	February 15, 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.

ATTACHMENT I. SUPPLEMENTARY LETTER OF INTENT

Monrovia, December 2, 2009

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

Dear Mr. Strauss-Kahn:

The global financial crisis has impacted Liberia severely through job losses in the export sector, an investment slowdown and a weakening of the exchange rate. Nonetheless our monetary and fiscal policies remain broadly on track and we have made significant progress in implementing our economic reform program.

The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) summarizes the substantial progress made in implementing the PRGF-supported program through June 2009 and outlines our economic and structural policies for 2010.

This MEFP complements and updates the MEFP of February 27, 2008 which set out the objectives of our three year PRGF supported program, and the updates of December 3, 2008 and April 15, 2009.

Performance under the program has been good. We met all quantitative performance criteria at end-June 2009 with the exception of total revenue collection due to delays in iron ore and timber concession payments. On the basis that the deviation was temporary we request a waiver of non-observance for this performance criterion. We met the one structural performance criterion applying to this review and four of five structural benchmarks through end-September 2009, albeit some with delay.

We request a modification of the program for an adjuster to the floor on total revenue collection in the event of shortfalls in non-tax revenues; and that the performance criterion on net foreign exchange position of the Central Bank of Liberia be modified to include SDR holdings. We also set out our quantitative program and key structural benchmarks for 2010.

We propose that the sixth loan disbursement is scheduled for October 2010 based on end-June 2010 performance criteria and completion of the fifth program and financing assurances reviews, and the seventh disbursement for mid-February 2011 based on end-December 2010 performance criteria and completion of the sixth program and financing assurances reviews.

We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. We will consult closely with Fund staff as detailed in our letter of December 3, 2008.

We remain committed to the reform agenda, and anticipate that ongoing improvements in governance, public financial management, revenue administration, and in the financial sector will provide us with the foundation necessary to benefit from the global recovery.

On the basis of this performance, and on the strength of the policies set forth in the attached memorandum, we request that the third review under the PRGF arrangement be completed and that the fourth disbursement be approved in the amount of SDR 4.44 million.

Continuing with our policy of transparency, we consent to the publication of this letter, the attached MEFP, and the accompanying Executive Board documents on the IMF's website.

Sincerely yours,

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

Supplementary Memorandum of Economic and Financial Policies, 2010

I. Macroeconomic context and Poverty Reduction Strategy

1. This memorandum describes our recent policy achievements and direction for the second half of the 2008–2011 program period. It is fully consistent with our Poverty Reduction Strategy (PRS) paper.

2. **The global financial crisis has slowed the growth of jobs and output in the near term and made budgetary management and the fight against poverty more difficult**. We are experiencing lower prices and demand for our exports of rubber and diamonds, and delays in foreign investments. Continued donor support and limited external financial linkages have helped shield us from the worst of the downturn. External developments heightened demand for the U.S. dollar and this has had a stronger impact on the exchange rate than expected. At the same time exchange rate depreciation contributed to higher than expected inflation during 2009. Looking ahead, we expect growth to begin to pick up in 2010 and inflation to continue to moderate. The medium-term economic outlook remains positive, particularly in the commercial agriculture sector and mining, though subject to considerable uncertainty.

3. **Our ability to fully actualize our medium- to long-term potential critically depends on simultaneous success on two fronts:** continued reform to strengthen economic governance, transparency and accountability; and an increase in both public and private investment. The latter is needed to support infrastructure development, which is critical to economic diversification and our ability to add value to natural resources. In recent months we have made good progress in advancing this agenda including the passage of a comprehensive public financial management act and validation of resource-related revenues through the EITI initiative. In addition, a rapidly developing economy will require a more dynamic financial system that can channel excess liquidity into productive investment. Hence, we attach priority to broadening and deepening the financial sector, underpinned by enhanced supervision and regulation.

4. **Implementation of the specific deliverables in the first year of our Poverty Reduction Strategy approved March 2008 fell short of the ambitious objectives we set**. To re-energize the process we have elaborated a set of 90-day deliverables to be implemented by end-November 2009 by government ministries and agencies. Implementation is being monitored monthly by the Ministry of Planning and Economic Affairs with encouraging initial results. Our first PRS annual performance report will be completed by end-2009.

II. Program Implementation in 2009 and 2010 Program

A. Monetary and Financial Policies

5. **The banking system remains solvent and liquid**. Financial intermediation is increasing. Monetary developments continue to be in line with program projections through end-June 2009. The net foreign exchange position is above the program objective, implementation of the budget of Central Bank of Liberia (CBL) is consistent with a balanced position for 2009, and there is no accumulation of CBL arrears through end-June 2009.

6. **The recent Special Drawing Right (SDR) allocation is a welcome addition to CBL foreign exchange reserves.** Given the still modest level of reserves and high existing debt vulnerabilities, our medium-term objective is to continue to build our reserves as an important part of our effort to strengthen the Liberian dollar, including in 2010 as currently specified in our monetary program. Taking into account the nonconcessional nature of SDR interest rate, we will carefully consider the use of SDRs.

7. **Monetary policy will continue to aim at maintaining broad exchange rate stability of the Liberian dollar relative to the U.S. dollar**, which is the intermediate monetary target for containing inflation. To help achieve this objective we will strengthen monitoring of financial system liquidity, and we stand ready to adjust foreign exchange sales to contain excess volatility in the exchange rate should it be necessary. We anticipate that inflation will stabilize at around 5 percent through end-2010. In support of our objective to reduce dollarization in the financial system, the Ministry of Finance (MoF) has authorized the use of local currency for payment of some trade taxes and announced that the use of the Liberian dollar in government payments will increase.

8. **We plan to develop the infrastructure for a Liberian dollar treasury bill market with IMF technical assistance**. The CBL will adopt and publicize treasury bill auction regulations as the primary instrument for short-term domestic financing of the budget by end-June 2010 (structural benchmark) and set up a book entry system. Further financial infrastructure reform will focus on developing the payment system with technical assistance from the IMF and other donors.

9. **The CBL is committed to continue to operate a balanced budget through to the HIPC completion point, and implementation in 2009 is on track.** The strengthened reserve position provides scope to reorient our reserves management, consistent with our prudent investment policy. To this end, we are establishing an investment committee to manage reserves with due regard to risk, liquidity, and earnings. We are investigating the funding options in order to commence work towards the completion of a building designed to house the CBL given the need to have such appropriate facilities.

10. **The CBL has continued to implement measures to strengthen internal management and financial controls**. The special audit of CBL data, reporting for January–June 2009, recommended a number of actions related to data reporting that the CBL has since responded to. Following a fraudulent fund transfer in May 2009, several CBL staff were dismissed and the CBL has re-evaluated and strengthened controls over its banking process. In order to address the backlog in check processing, the Banking Department recruited temporary staff and simplified check processing procedures with the objective of clearing the backlog by end-November 2009.

11. **The banking sector continues to expand**. The level of financial intermediation and competition in the banking sector increased during 2009, albeit from a low base. Moreover, during the first half of 2009, two additional banks began full commercial banking activities. Prudential indicators have improved—capital and liquidity are high, and nonperforming loans are declining, both as a share of total loans and of capital. Nevertheless, unfavorable global economic developments and the difficult lending environment in Liberia pose risks for loan portfolio quality and profitability respectively. We are working closely with our commercial banks to ensure they all achieve the scheduled increase of minimum capital to US$8 million by the end-2009.

12. **We have taken actions to ensure that banks maintain prudent open foreign currency positions and manage cross-border risks**. The CBL replaced the Regulation on Foreign Exchange Risk Management with the Guideline on Foreign Exchange Risk Exposure and Placement of Funds in August 2009. In order to protect foreign currency deposits and ensure adequate foreign liquidity in the banking system, the placement of funds abroad is limited to 50 percent of foreign currency deposits in "A" credit rated banks. In light of significant foreign ownership of local banks, we are also discussing with the foreign supervisory authorities memoranda of understanding which will establish cooperation and information sharing. We have introduced sanctions for banks not complying with the net foreign exchange position limit, and we will ensure that banks bring their open positions into compliance within the three month grace period provided for in the August guidelines. We have concluded supervisory and regulatory frameworks for the microfinance sector, and supervision of insurance is under review

13. **The CBL completed its January-June on-site inspection reports in September 2009** (meeting an end-September 2009 structural benchmark), except for one bank that has recently begun operations whose on site inspection will be conducted in November 2009. Inadequate risk management in commercial banks motivate our intent to upgrade the supervisory framework from the traditional compliance-based approach to risk-based supervision with technical assistance from the IMF. Based on the level of improvement of governance structure of individual banks, we will change the normal cycle of on-site inspections to an annual basis, while strengthening off-site supervision.

B. Fiscal Policies

14. **The fiscal program for 2008/09 remained largely on track, and we maintained our commitment to a balanced cash based budget**. Tax revenue collection was strong, exceeding program projections as personal income tax over performed and other categories mostly attained their budgeted levels. However, a major mining project—and an initial US$20 million bonus payment—was delayed into the 2009/10 fiscal year; and revenue from the sale of forestry leases was significantly lower than anticipated. Consequently, revenue fell short of its target for end-June 2009 by about US$19 million. However, in line with program understandings, we fully adjusted to this shortfall by streamlining expenditure to avoid accumulating new arrears. The cuts were sourced from a prioritized list and came mainly from current expenditure, leaving the public investment program largely intact. On the basis that the underperformance of the revenue target was temporary we request a waiver on the corresponding performance criterion.

15. **Our fiscal program for 2009/10 is grounded on realistic revenue assumptions, and spending commitments are anchored by the no new borrowing commitment:**

- Large increases in nontax revenue are expected this year, as a one-off iron ore-related payment originally programmed for 2008/09 has been moved into the current year, and it now appears that substantial revenue will likely accrue from the acceleration of forestry activity.

- However, we expect recent policy changes will contain nominal tax revenue to 2008/09 levels. In September, to provide some relief from the global crisis we lowered personal income tax rates and reduced the number of bands. In parallel, to maintain tax competitiveness with neighboring countries we reduced the top corporate income tax rate. These changes will become effective in January 2010. At this time, we intend to submit further proposals to our Legislature aimed at recovering part of the foregone revenues in future years including an increase in the GST rate from 7 to 8 percent, to 10 percent for luxury sectors, and align the top rate of personal income tax with the corporate tax rate.

- To promote better expenditure control, fiscal planning, and to facilitate orderly and efficient adjustment of expenditure to revenue shortfalls, ministries and agencies will be informed in a timely manner of any anticipated changes in the resource envelope. We will maintain the control function at an early point in the expenditure chain by ensuring that allotments are made on the basis of realistic revenue projections, which we recognize may differ from budgeted figures.

- As specified in the Finance Act, we will undertake a mid-term budgetary review and submit our conclusion and recommendation to the Legislature in February 2010.

16. **Expenditure in our 2009/10 fiscal program remains focused on the priorities identified in our PRS**. Within our current spending envelope, we will maintain social and other priority spending (outlays on our four PRS pillars) at not less than 60 percent of total revenue and grants collected (new indicative target). We will maintain this relative expenditure share despite any changes in available funding that may become apparent as a result of our mid-term budgetary review.

17. **We are strengthening the fiscal regime for investment.** Amendments to the Liberian Revenue Code (LRC) provide a transparent schedule of investment incentives for selected economic sectors. The amendments also contain fiscal regimes for natural resources and large agriculture projects that were developed with assistance from the Fund. We also expect to secure passage of revisions to the Investment Incentives Act in early 2010 when the Legislature reconvenes. Passage of this legislation, together with the formulation and publication of the related regulation, will complement changes made in the LRC and remove potential conflicts between the two pieces of legislation. Finally, we expect to submit the fiscal framework for the forestry sector to the Legislature in March 2010.

C. Public Financial Management and Governance

18. **Tracking of resource revenues has been internationally recognized as outstanding**. Mineral and timber revenue discrepancies in the 2007/08 Liberia Extractive Industries Transparency Initiative (LEITI) report have been reconciled and the report was validated by the EITI Board in October, making Liberia the first EITI-compliant country in Africa. The 2008/09 report is expected to be available at end-2009.

19. **The external audit strategy is being vigorously implemented**. The external audit of the central government's 2007/08 accounts was finished on schedule (performance criterion end-March 2009). The General Auditing Commission (GAC) has completed 22 audits, including the first round of five audits of key ministries for the HIPC Initiative completion point trigger. An additional 32 audits are forthcoming including the second round of HIPC audits expected in November 2009. The GAC audit strategy is evolving to focus less on a transactional approach while increasing emphasis on strengthening systems, particularly government property management, including fixed assets, payroll and procurement. We intend to improve the effectiveness of the audit process by institutionalizing the response to audit findings by March 2010.

20. **We have significantly advanced our program of fiscal structural reforms, albeit with some delays**. The Public Financial Management (PFM) Act was enacted in September, and the supporting regulations issued in December (structural benchmark; end-June 2009). We also adopted new accounting standards for government in November while work on a new chart of accounts is now expected to be completed by March 2010 with assistance from World Bank (structural benchmark; end-June 2009, reset for March 2010). Implementing

guidelines for the Public Procurement and Concessions Act were issued in December 2009 (structural benchmark; July 2009).

21. **Satisfactory implementation of the PFM law is a priority**. This will secure the advances in budgeting, procurement, accounting, and auditing needed to align the management of our public finances with international best practice. Fund technical assistance has guided our action plan. The implementation of the law and regulations will be guided by a high-level steering committee and supported by a recently established reform coordination committee within the Ministry of Finance. We are seeking an international advisor from the IMF, funded by the EU, to assist us in our reform process. Specific actions planned to improve PFM include:

- Improving payroll management and control through the introduction of the IFMIS software system, complete the payment of all Monrovia-based civil servants by direct bank transfer (new structural benchmark end-June 2010); and by thoroughly vetting the payroll lists—a process that has already begun.
- Strengthening Ministry of Finance cash flow forecasting capacity;
- Compilation of a comprehensive computerized asset registry by the General Services Agency of all ministries and agencies (new structural benchmark end-June 2010);
- Publishing two successive quarterly implementation reports, circulated to legislature, cabinet, GAC and development partners, of progress achieved in implementing the PFM law beginning January 2009 (new structural benchmark end-April 2010);
- Establishing a working system whereby MoF and CBL can reconcile checks cashed against cash expenditure; and clear the backlog of checks cashed but not posted to government's accounts at the CBL;

22. **We intend to press ahead with comprehensive reform of our revenue administration**:

- In customs, our overriding priority is to implement the ASYCUDA system. Once operational, this system will result in significant improvements in data collection, and analytical capacity; decrease discretion, increase staff accountability and monitoring, and has the potential to significantly reduce processing time. A Steering Committee has been set up; and a project team, supported by UNCTAD has begun training staff, educating stakeholders, and installing infrastructure in the Monrovia Free Port customs office. We will fully implement the ASYCUDA at the Monrovia Free Port by end-February 2010 (new structural benchmark), followed by the LPRC oil jetty and Robertson International Airport by March 2010. In consultation with World Customs Organization (WCO), we intend to conclude a three-year strategic plan to modernize our customs service. We also intend to adopt the ECOWAS Common External Tariff and GATT valuation.

- In the Bureau of Internal Revenue, we have established the Tax Reform and Modernization Committee to spearhead reforms. Our major goal will be a new information system—the Integrated Tax Administration System (ITAS) to be implemented with the help of our development partners. We will strengthen the audit function and restart tax audits of large taxpayers following a period of staff training (new structural benchmark end-March 2010).

- We shall commence collection of revenue through commercial banks in Monrovia and rural areas in consultation with the CBL.

23. **The Liberia Anti-Corruption Commission (LACC) has expanded activities in each of its three main operational areas** over the past six months (prevention, education and enforcement). The LACC launched an asset declaration campaign for senior public officials in August. Public awareness and information on corruption issues is high but needs continued reinforcement. Investigations of several cases by the LACC are close to the point of submission to the Ministry of Justice, which in turn will consider whether to proceed to prosecution. The passage of laws on Code of Conduct of public officials and on corrupt practices already submitted to the legislature would significantly enhance the effectiveness of the LACC.

24. **Capacity constraints continue to exist in the judicial system, hampering our ability to pursue commercial, property and corruption cases.** We plan to press ahead with the development of four additional civil courts (two for property cases, one each for commercial cases, and other civil cases). These require an amendment of the Judiciary Act which will be submitted to the legislature in early 2010.

D. Debt Management and External Policies

25. **We have revised our debt management strategy which is expected to receive Cabinet approval before end-2009**. The new strategy will contribute to ensure that all available resources will be effectively used to support growth and development while preventing the accumulation of unsustainable debt. The strategy aims to strengthen our institutional and technical capacity to monitor debt, and evaluate its sustainability and inherent risks, in a more timely and efficient manner. The Debt Management Unit (DMU) of the Ministry of Finance will be responsible for day-to-day debt management, and the director will also be a member of the soon-to-be established National Debt Management Committee. A new debt management system is on track to be operational by end-December 2009 (benchmark), which will significantly enhance our ability not only to monitor debt, but also permit a more timely and comprehensive publication of domestic and external debt data, including the financial terms of loans.

26. **The ASYCUDA system provides an opportunity to streamline and automate administrative procedures for goods importation in line with international practice**. To this end, we propose to remove the import permit declaration requirement for imports covered by ASYCUDA from end-June 2010 (new structural benchmark). A positive list containing a limited number of goods that are subject to price controls (cement and rice) or affect national security will require clearance by the Ministry of Commerce.

E. Statistics

27. **We continue to make gradual progress in developing the coverage and timeliness of macroeconomic and financial statistics**. The 2008 balance of payments statistics were reported to the Fund and published in August 2009. A national accounts establishment survey was completed in late 2009. However, due to a low response rate, the survey questionnaire is being simplified with a view to relaunching the survey in late 2009. We will seek additional technical assistance to strengthen LISGIS capacity to compile the full national accounts dataset in 2010. We will launch a labor force survey in 2010

III. HIPC Initiative Completion Point

28. **We have made very significant progress in implementing the floating triggers for HIPC initiative completion point and intend to complete the necessary actions as soon as possible**. We anticipate that nine of the triggers will be completed by end-2009 (Table 3). As noted above we attach the highest priority to implementation of the Public Financial Management Law and our endeavors will be summarized in quarterly implementation reports. In early 2010, we expect passage of the revised Investment Incentives Act and to complete the regularization and harmonization of pay and grading in the Ministry of Education.

Table 1a. Liberia: Quantitative Performance Criteria and Indicative Targets, 2009

(Millions of US dollars, unless otherwise indicated)

	Mar. 09		Jun. 09		Sep. 09		Dec. 09	
	Program	Actual	Program	Actual	Program	Actual	Program	Revised Program
Performance criteria and indicative targets [1]								
Fiscal targets [2]								
Floor on total revenue collection	148.6	155.5	230.3	211.3	61.3	52.7	108.4	121.5
Floor on fiscal balance [3]	-20.4	…	-20.4	-19.7	0.0	…	0.0	-4.1
Floor on social and other priority spending (percent of total revenue and grants collected) [4]	…	…	…	…	…	…	…	60.0
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 (continuous basis) [5]	0.0	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	0.0
Central Bank of Liberia [5]								
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	-1.4	-1.1	-1.0	-0.2	-0.4	…	0.0	0.0
Floor on CBL's net foreign exchange position	52.3	55.9	54.2	58.0	57.1	…	59.7	248.4 [7]
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects[8]	…	…	…	…	…	…	…	20.0

[1] Performance criteria at end-June 2009 and end-December 2009 except where marked. All others indicative targets.

[2] Cumulative; fiscal year (July-June) basis. Beginning December 2009, an adjuster comes into force stipulating that the floor on total revenue collection will be adjusted downward by any shortfall in receipts of one-time iron ore signing bonuses and contributions into Social Development Funds from new iron ore projects from their programmed level (Technical Memorandum of Understanding ¶5).

[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 previous fiscal years.

[4] Indicative target. Social and other priority spending is defined as the fiscal expenditure on the four basic pillars of PRS spending defined in the Liberian Poverty Reduction Strategy paper, 2008.

[5] Excluding the arrears arising from the current debt outstanding.

[6] Cumulative; calendar year basis.

[7] From December 2009, CBL's net foreign exchange position includes SDR holdings and is based on the scheduled disbursement on the current PRGF-supported program. In the event of delays to PRGF disbursements the floor would adjust down automatically.

[8] Cumulative; fiscal year basis.

Table 1b. Liberia: Quantitative Performance Criteria and Indicative Targets, 2010
(Millions of US dollars, unless otherwise indicated)

	Mar. 10	Jun. 10	Sep. 10	Dec. 10
	Program	Program	Program	Program
Performance criteria and indicative targets [1]				
Fiscal [2]				
Floor on total revenue collection	181.5	277.6	54.3	125.6
Floor on fiscal balance [3]	-4.1	-4.1	-4.0	-6.0
Floor on social and other priority spending (percent of total revenue and grants collected) [4]	60.0	60.0	…	…
Ceiling on new noncash tax/duty payment (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new domestic borrowing (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new external borrowing (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables (continuous basis) [5]	0.0	0.0	0.0	0.0
Ceiling on new external arrears (continuous basis)	0.0	0.0	0.0	0.0
CBL [6]				
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0
Floor on CBL's cash-based budget balance	0.0	0.0	0.0	0.0
Floor on CBL's net foreign exchange position [7]	251.5	261.6	264.6	274.5
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects[8]	20.0	47.4	0.0	21.0

[1] Performance criteria at end-June 2010 and end-December 2010 except where marked. All others indicative targets.

[2] Cumulative; fiscal year (July-June) basis. Beginning December 2009, an adjuster comes into force stipulating that the floor on total revenue collection will be adjusted downward by any shortfall in receipts of one-time iron ore signing bonuses and contributions into Social Development Funds from new iron ore projects from their programmed level (Technical Memorandum of Understanding ¶5).

[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 previous fiscal years.

[4] Indicative target. Social and other priority spending is defined as the fiscal expenditure on the four basic pillars of PRS spending defined in the Liberian Poverty Reduction Strategy paper, 2008.

[5] Excluding the arrears arising from the current debt outstanding.

[6] Cumulative; calendar year basis.

[7] From December 2009, CBL's net foreign exchange position includes SDR holdings and is based on the scheduled disbursement on the current PRGF-supported program. In the event of delays to PRGF disbursements the floor would adjust down automatically.

[8] Cumulative; fiscal year basis.

Table 2a. Performance Criteria and Structural Benchmarks, 2009

Measures	**Target Dates**	**Justification**	**Status (December 2009)**
Performance criteria:			
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	Met
Program benchmarks:			
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	Met
Adopted accounting standards for the government and a comprehensive chart of accounts.	End-June 2009	Strengthen budget transparency and credibility	Partially Met. Chart of accounts expected March 2010.
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	Met with delay in December 2009.
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	Met with delay in December 2009.
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	Met (for all banks operating more than six months).
Full balance of payments statistics for 2008 completed and published by the CBL and LISGIS.	End-October 2009	Improve macroeconomic statistics and program monitoring	Met
National Accounts establishment survey completed.	End-December 2009	Urgently needed to monitor program performance and post conflict recovery	Poor response rate. Survey to be relaunched Dec. 2009.
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	Ongoing. At procurement stage.

Table 2b. Proposed New Structural Benchmarks, 2010

Measures	**Target Dates**	**Justification**	**Remarks**
Program benchmarks:			
Implementation of ASYCUDA in Monrovia Free Port.	End-February 2010	Trade facilitation and tax administration enhancement.	MEFP¶22
Restart tax audits of large taxpayers .	End-March 2010	Absence of tax audits of large taxpayers poses a significant revenue risk.	MEFP¶22
Adoption of comprehensive chart of accounts.	End-March 2010 (rephased from June 2009)	Strengthen budget transparency and credibility	MEFP¶20
Two successive quarterly implementation reports of the PFM law circulated to legislature, cabinet, GAC and development partners.	End-April 2010	Implementing PFM reforms and legislation is critical for delivering government services and mobilizing external support for the budget	MEFP¶21
Remove the import permit declaration requirement for imports covered by ASYCUDA. (A positive list containing a limited number of goods that are subject to price controls or affect national security will require clearance by the Ministry of Commerce.)	End-June 2010	Removes a cumbersome administrative barrier that raises operating costs and prices through effective reduction of competition.	MEFP¶26
Treasury bill auction regulation adopted by the CBL Board and publicized.	End-June 2010	Develop domestic capital market, provide an instrument for short-term domestic financing, and facilitate de-dollarization.	MEFP¶8
Direct salary payments to banks for all Monrovia-based civil servants.	End-June 2010	Reduce scope for fraud and encourage monetization and dedollarization.	MEFP¶21
Compilation of a comprehensive computerized asset registry by the General Services Agency of all ministries and agencies.	End-June 2010	Enhance transparency and accountability of fiscal operation.	MEFP¶21

Table 3. Liberia: Status of Triggers for the Floating Completion Point under the HIPC Initiative

Triggers	Progress 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.	• **Ongoing**. Full PRSP was finalized in March 2008. The outline of the first annual progress report (APR) was presented at LRDC June 3, 2009. The APR is expected December 2009.
Macroeconomic stability	
• Maintain macroeconomic stability, as evidenced by satisfactory performance under a PRGF/EFF-supported program.	• **On track**. The second review under the PRGF was completed in May 2009. Performance was satisfactory.
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.	• **Ongoing.** First quarterly publication published in June 2009, covering the period January to March 2009. Second quarterly publication forthcoming shortly.
• 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.	• **Ongoing.** First round of audits for 2006/07 completed. Second round of audits expected November 2009.
• Implement the new PFM law and supporting financial regulations for at least 12 months leading up to the completion point.	• **Ongoing.** PFM law was submitted to parliament in December 2008 and enacted in September 2009. Implementing regulations were approved in November 2009.

Table 3. Liberia: Status of Triggers for the Floating Completion Point under the HIPC Initiative (concluded)

Triggers	Progress Status
Social sectors	
• Complete a harmonized and regularized Ministry of Education payroll.	• **Ongoing.** The harmonized and regularized payroll is expected to be completed in March 2010.
• Ensure that the Basic Package of Health Services is delivered in at least 40 percent of all health facilities nationwide.	• **Met.** A survey in February 2009 found coverage of 32-34 percent. A second survey found 47 percent coverage in August 2009.
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.	• **Met.** Debt management strategy was adopted by authorities in June 2008 and a debt management unit has been established. Draft updated debt management strategy was prepared in July 2009.
• 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.	• **Ongoing.** Quarterly external and domestic debt data are currently published in the MoF website. The next quarterly publication, to be published by end-2009, will also include loan financial terms.
Governance	
• Implement a revised investment incentive code to ban granting tax exemptions outside the Liberia Revenue Code.	• **Ongoing.** Investment code has been revised with special fiscal provisions moved to the Liberia Revenue Code. It was submitted to Legislature in April 2009 but was not passed.
• 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.	• **Ongoing.** The EITI published its first annual report in February 2009 covering the period July 2007-June 2008. The report was validated by EITI in October 2009. Next report covering the period July 2008-June 2009 is due end-2009.
• 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	• **Ongoing.** Anti-Corruption Commission was 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 Poverty Reduction and Growth Facility program, as well as the reporting requirements.

I. QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS

A. Test Dates

2. Quantitative performance benchmarks have been set for March and September 2010 and quantitative performance criteria for end-December 2009, and end-June and end-December 2010.

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. **Total revenue collection** 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 as well. 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 program floor on total revenue collection will be adjusted downward** to the extent that signing bonuses and payments into Social Development Funds from new iron ore projects fall short of the following programmed schedule, cumulative within the fiscal year:

December 2009	$20.0 million
March 2010	$20.0 million
June 2010	$47.4 million
September 2010	$0.0 million
December 2010	$21.0 million

6. **Social and other priority spending** is defined as fiscal expenditure on the four basic pillars of PRS spending defined in the Liberian Poverty Reduction Strategy paper, 2008.

7. **The fiscal balance** on a commitment basis 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) plus payment of arrears, amortization, and payments to the domestic trust fund.

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

9. **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 to U.S. dollars at the end of period exchange rate.

10. **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.

11. **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.

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

13. **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.

14. **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.

15. **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.

16. **The CBL's net foreign exchange position** is defined as the difference between (a) the CBL's gross foreign reserves including Special Drawing Rights (SDR) holdings, 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. The net CBL foreign exchange position is presented in the U.S. dollar. SDR holdings are valued at a fixed rate of the U.S. dollar against SDR, 1.5844 as of September 30, 2009. Other currencies are valued at cross-rates against the U.S. dollar as of September 30, 2009.

II. Program Monitoring

A. Program–Monitoring Committee

17. 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

18. 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);

- The detailed table of commercial banks loans and advances by sector (monthly, 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 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, and the report on the use of the foreign exchange auction sales;

- 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).

19. 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

Third 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 African Department
(In consultation with other departments)

December 2, 2009

- **Relations with the Fund.** Describes financial and technical assistance from the Fund and provides information on the safeguards and assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 564.0 million (436.55 percent of quota) at end-October 2009.
- **Joint World Bank-IMF Work Program, 2009-10**
- **Statistical Issues.** Assess the quality of the statistical data. Weaknesses in national accounts statistics are hampering the analysis of economic developments in the country.

Content Page

I. Liberia—Relations with the Fund
(As of Oct. 31, 2009)

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

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	129.20	100.00
Fund holdings of currency	471.95	365.29
Reserve position in Fund	0.0	0.0

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	123.98	100.00
Holdings	124.21	100.18

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
PRGF Arrangements	221.26	171.25
Extended Arrangements	342.77	265.30

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	03/14/2008	03/13/2011	239.02	221.26
EFF	03/14/2008	09/25/2008	342.77	342.77
Stand-By	12/07/1984	12/06/1985	42.78	8.50

VI. Projected Payments to the Fund (without HIPC Assistance)[1]
(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	1.67	5.50	5.50	5.39	4.82
Total	1.67	5.50	5.50	34.02	82.68

Projected Payments to the Fund (with Board –approved HIPC Assistance)
(SDR million; based on existing use of resources and present holdings of SDRs):

[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.

	Forthcoming				
	2009	2010	2011	2012	2013
Principal				28.56	77.85
Charges/interest	0.16	4.43	5.43	5.39	4.76
Total	0.16	4.43	5.43	33.95	82.62

VII. Implementation of HIPC Initiative:

	Enhanced Framework
A. Commitment of HIPC assistance	
Decision point date	Mar 2008
Assistance committed by all creditors (US$ million)[2]	2,845.50
Of which: IMF assistance (US$ million)	700.20
(SDR equivalent in millions)	428.10
Completion point date	Floating
B. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	30.14
Interim assistance	30.14
Completion point balance	--
Additional disbursement of interest income[3]	--
Total disbursements	30.14

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

IX. Safeguards Assessment

An update of the 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, which has since occurred. 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 engage its external auditor to conduct special periodic audit of monetary data reported to the Fund has been adopted by the bank. The most recent report for the six month ended June 30, 2009 indicated some areas for improvement but noted that, overall, the monetary data submitted by the CBL are accurate and in compliance with TMU

[2] 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 cannot be added.

[3] 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.

definitions, and that the CBL continues to make progress in improving aspects of its control environment. The CBL has also made progress in implementing other safeguards recommendations, including development of investment guidelines for CBL foreign exchange reserves. Staff will continue to monitor developments in the CBL's safeguards framework.

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. The authorities manage the exchange rate with reference to the U.S. dollar, and the arrangement is classified as 'other managed'. Liberia's exchange rate at end-October 2009 was L$70.5=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 2008-09

Subject	Department	Date
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
Resident expert: balance of payments	STA	Jan. 2008
Mission: Accounting	MCM	Jan 2009
Mission: Monetary Operations	MCM	Mar 2009
Mission: GFS	STA	April/May 2009
Mission: PFM Regulations drafting	FAD	May 2009
Mission: Revenue administration and customs tax	FAD	May 2009
Mission: Legal drafting	LEG	May 2009
Mission: Foreign Exchange Operations	MCM	June 2009
Mission: PFM	FAD	June 2009

Mission: Accounting Standards	MCM	Aug/Sept. 2009
Mission: Banking Supervision	MCM	Sept./Oct. 2009
Mission: Monetary Operations	MCM	Oct. 2009
Mission: Tax Policy	FAD	Nov. 2009

XIII. Resident Representative

A resident representative has been posted in Monrovia since April 2, 2006. Mr. Sobolev assumed the position in July, 2009 replacing Mr. Tharkur.

II. Liberia—Joint World Bank-IMF Work Program, 2009-10

Title	Products	Timing of mission	Expected delivery date	Status
	A. Mutual information on relevant work programs			
1. World Bank work program	1. Urban & Rural Infrastructure Rehab. Project		Apr. 2009	Approved on April 21, 2009
	2. Commercial Debt Reduction Program		Apr. 2009	Completed on April 8, 2009
	3. Second Reengagement and Reform Support Program (RRSPII)	June. 2009	May 2009	Approved on May 21, 2009
	4. Pro-poor Growth – Policy Note	June 2009	Sep. 2009	Decision Meeting completed
	5. Third Reengagement and Reform Support Program (RRSPIII	October 2009	May 2010	Concept state
	6. Liberia Poverty Assessment	January, 2010	July 2010	Concept stage
2. IMF work program	1. Second Review of PRGF Program and joint DSA	Feb. 12-25, 2009	Mar. 2009	Concluded May 2009
	2. Technical assistance with PFM strategy	Jun./Jul. 2009	Sep. 2009	Completed Oct 2009
	3. Third Review of PRGF	Sep. – Oct. 2009	Dec. 2009	
	4. Gleneagles scaling up model		Jul.-Aug. 2009	Completed August 2009
	5 Fourth Review of PRGF	April 2010	Mid-2010	
	6. Fifth Review of PRGF	Oct, 2010	Dec., 2010	
3. Work jointly performed	1. 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
	2. 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.	PFM approved
	3. HIPC Completion Point Debt Reconciliation	Q4 2009	At completion point.	
	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. 2. IMF Relations Note for RRSPIII		Continuous April 2010	

III. Liberia—Statistical Issues

As of November 12, 2009

I. Assessment of Data Adequacy for Surveillance
General: Data have serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in the areas of national accounts and balance of payments statistics, where Fund staff are obliged to estimate the historical data.
National Accounts: Comprehensive national accounts data are not available. Fund staff estimate GDP by sector using the production approach and primary source data provided by the Liberia Institute of Statistics and Geo-Information Services. 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 real GDP, sectoral components, and all ratios to nominal GDP. The national business register and National Accounts questionnaires were established in December 2008. A national accounts establishment survey has been completed but the response rate was low, limiting its usefulness.
Price statistics: A consumer price index for Monrovia has been compiled since 2005. The Harmonized Consumer Price Index providing national coverage was officially adopted in 2007.
Government finance statistics: The Ministry of Finance regularly provides AFR with monthly disaggregated data on government revenue and on government current and capital expenditure on a cash and commitment basis. However, there is a number of areas where the government finance statistics needs to be improved: reporting financing items and expenditures on domestic debt and arrears; lack of legal framework to collect statistics; limited data sharing and coordination among data producing agencies; inconsistent institutional coverage of the statistics with other datasets (e.g. national accounts and monetary statistics); omission of nonmonetary transactions; limited data on stocks of financial assets and liabilities; and incorrect reference exchange rate to covert data from Liberian dollars to USD.
Monetary finance statistics: Data provision in this area is adequate for surveillance. The Central Bank of Liberia has made progress in adopting the statistical methodology recommended by the IMF's Monetary and Financial Statistics Manual. A STA mission in early 2010 will assist authorities in compiling standardized report forms of monetary data and collecting data from commercial banks.

Balance of payments: Balance of payments reporting is not comprehensive, and Fund staff has to prepare provisional balance of payments statistics for surveillance. Although some progress in collecting and reporting of data have been made with STA support, there still remains several areas that need improvements: primary source data, compilation, and timeliness in data dissemination, especially for trade and services, FDI, government expenditures, remittances, and nonresident deposits data.	
II. Data Standards and Quality	
Liberia participates in the General Data Dissemination System (GDDS).	No data ROSC available.
III. Reporting to STA (Optional)	
The authorities report annual balance of payments data to the *IFS* and the *BOPSY*, but does not report the government statistics to the *GFSY*.	

Liberia—Table of Common Indicators Required for Surveillance

As of November 12, 2009

	Date of latest observation	Date received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of publication[5]
Exchange Rates	Sep. 2009	Oct. 2009	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep. 2009	Oct. 2009	M	M	M
Reserve/Base Money	Sep. 2009	Oct. 2009	M	M	M
Broad Money	Sep. 2009	Oct. 2009	M	M	M
Central Bank Balance Sheet	Sep. 2009	Oct. 2009	M	M	M
Consolidated Balance Sheet of the Banking System	Sep. 2009	Oct. 2009	M	M	M
Interest Rates	Sep. 2009	Oct. 2009	M	M	M
Consumer Price Index	Sep. 2009	Oct. 2009	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[2] – General Government[3]	Sep. 2009	Oct. 2009	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[2]– Central Government	Sep. 2009	Oct. 2009	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt	Sep. 2009	Oct. 2009	Q	Q	Q
External Current Account Balance	Sep. 2009	Oct. 2009	A	I	I
Exports and Imports of Goods and Services	Sep. 2009	Oct. 2009	M	Q	M
GDP/GNP	NA	NA	NA	NA	NA
Gross External Debt	Sep. 2009	Oct. 2009	Q	Q	Q
International Investment Position[4]	NA	NA	NA	NA	NA

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives.

[2] Foreign, domestic bank, and domestic nonbank financing.

[3] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.

[4] Includes external gross financial asset and liabilities positions vis-à-vis nonresidents.

[5] Daily (D); weekly (W); monthly (M); quarterly (Q); Annually (A); irregular (I); not available (NA).

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No.09/469
FOR IMMEDIATE RELEASE
December 18, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under PRGF Arrangement for Liberia and Approves US$7 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review under the Poverty Reduction and Growth Facility (PRGF) arrangement for Liberia. Completion of the review was on a lapse of time basis[8], and will enable the immediate release of SDR 4.44 million (about US$7 million) under the arrangement. This will bring total disbursements under the arrangement to SDR 225.7 million (about US$357 million).

In completing the review, the Executive Board granted Liberia a waiver for the non-observance of the performance criterion on total revenue collection at end-June 2009. The Executive Board also completed the financing assurances review.

The three-year PRGF arrangement was approved in March 2008 for an amount of SDR 239.02 million (about US$378 million; see Press Release No. 08/52).

PRGF-supported programs are based on country-owned poverty reduction strategies that are adopted in a participatory process involving civil society and development partners and articulated in the country's Poverty Reduction Strategy Paper. This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty.

[8] The Executive Board takes decisions under its lapse of time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Washington, D.C. 20431 • Telephone 202-623-7100 • Fax 202-623-6772 • www.imf.org