

**Liberia: Third Review of Performance Under the Staff-Monitored Program—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Liberia**

In the context of the third review of performance under the Staff-Monitored Program for Liberia, the following documents have been released and are included in this package:

- The staff report for the Third Review of Performance Under the Staff-Monitored Program, prepared by a staff team of the IMF, following discussions that ended on July 13, 2007, 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 June 28, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff statement of July 13, 2007 updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its July 13, 2007 discussion of the staff report.
- A statement by the Executive Director for Liberia.

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

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

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to [publicationpolicy@imf.org](mailto:publicationpolicy@imf.org).

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
700 19<sup>th</sup> Street, N.W. • Washington, D.C. 20431  
Telephone: (202) 623-7430 • Telefax: (202) 623-7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) • Internet: <http://www.imf.org>

Price: \$18.00 a copy

**International Monetary Fund  
Washington, D.C.**



INTERNATIONAL MONETARY FUND

LIBERIA

**Third Review of Performance Under the Staff-Monitored Program**

Prepared by African Department  
(In consultation with other departments)

Approved by David Andrews and Matthew Fisher

June 28, 2007

Discussions for the third review of performance under the staff-monitored program (SMP) were held in Monrovia March 29–April 11, 2007. The staff team comprised Mr. Powell (head), Mr. Erasmus, Mr. Leichter (all AFR), Mr. Rodriguez (PDR), Mr. Nyberg (FIN), and Mr. Tharkur (resident representative).

The mission met the Minister of Finance, the Acting Minister of Planning and Economic Affairs, the Deputy Minister of Commerce and Industry, the Governor of the Central Bank of Liberia (CBL), and other senior government officials. It also met with the donor community and representatives of the legislature and private sector, and briefed President Johnson-Sirleaf on the mission's preliminary findings.

The Executive Board discussed the second review of performance under the SMP on February 7, 2007. (Country Report No. 07/49). The Directors agreed that the authorities had made satisfactory progress in implementing the 2006 SMP.

The authorities' interim Poverty Reduction Strategy Paper (I-PRSP) (Country Report No. 07/60) was circulated to the Executive Board on February 9, 2007. The Joint Staff Assessment Note (JSAN) (Country Report No. 07/313) for the I-PRSP was circulated to the Board on May 11, 2007.

Contents	Page
I. Introduction .....	4
II. Recent Economic Developments .....	5
III. Policy Discussions and the Outlook for 2007.....	6
A. Fiscal Policy.....	6
B. Monetary and Financial Sector Policies.....	9
C. Governance Issues.....	10
D. External Debt and Arrears .....	10
E. Data Issues.....	10
IV. Program Monitoring and Risks.....	11
V. Staff Appraisal .....	11
 Tables	
1. Selected Economic and Financial Indicators, 2004–08 .....	16
2. Balance of Payments, 2004–08.....	17
3. Summary of Central Government Operations, 2004/05–07/08 .....	18
4. Monetary Survey, 2004–08.....	19
5. Core Set of Financial Soundness Indicators, 2003–07 .....	20
 Figures	
1. Selected Economic Indicators, 2002–08.....	13
2. Exchange Rate Developments, January 2000–May 2007 .....	15
 Boxes	
1. Liberia’s Domestic Debt Resolution Strategy .....	7
 Appendixes	
I. Letter of Intent.....	21
 Appendix Tables	
1. Quantitative Indicators 2006–07.....	24
2. SMP for February-September 2006—Structural Benchmarks .....	25
SMP for February-September 2006—Structural Benchmarks (cont.).....	26
3. Structural Benchmarks for 2007 SMP .....	27

## EXECUTIVE SUMMARY

- **Economic activity remains buoyant.** Real growth is projected to be about 8 percent in 2007. Year-on-year inflation was 11.3 percent in May 2007, down from 12.0 percent in January. The Liberian dollar depreciated by 7.2 percent against the U.S. dollar in the year to end-May 2007.
- **Revenues were stronger than expected, but expenditure lagged.** Public revenues (excluding grants) through April were 79 percent higher than in the same period a year ago. Expenditure approvals, however, continued to lag revenues. The staff projects a budget surplus of about 3 percent of GDP (commitment basis) in 2006/07.
- **Performance under the SMP through March 2007 was broadly satisfactory.** All but one of the quantitative benchmarks were met. All of the structural benchmarks for end-March were completed, albeit some with delay.
- **Continued strong efforts will be needed to achieve the revenue target for 2007/08 and to improve budget implementation.** The cash-based balanced budget for 2007/08 targets revenues of US\$182.5 million, a 30 percent increase from the staff's revised projection for 2006/07. This target—while supported by a one-off payment related to a foreign direct investment project—will require the authorities to maintain revenue reforms. A strong effort will be required to strengthen budget implementation to support the government's poverty reduction policies while adhering to prudent public expenditure management rules.
- **Monetary policy will continue to use the exchange rate to gauge domestic monetary conditions, and manage Liberian dollar liquidity to maintain broad exchange rate stability.** While progress has been made in improving bank capitalization, the financial sector remains weak, and further efforts are needed to strengthen financial sector balance sheets and the regulatory and supervisory framework.
- **Notwithstanding the authorities' strong commitment to reform, political developments and capacity constraints, which have led to delays in achieving a number of program benchmarks, pose considerable risk.** Difficulties in getting the opposition-led legislature to consider and approve supportive legislation could make implementation of some key reforms more difficult.

## I. INTRODUCTION

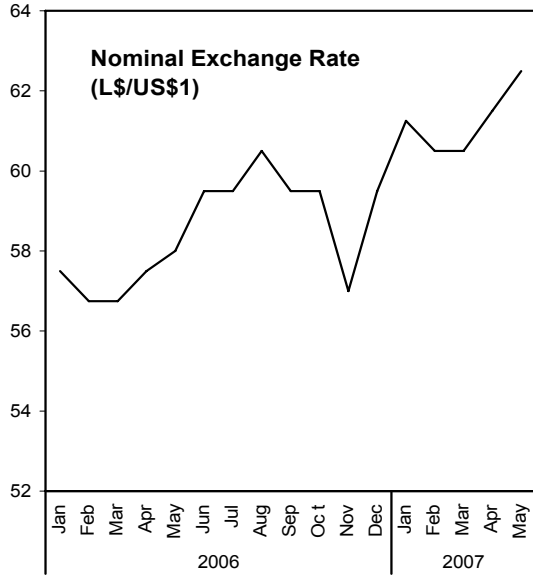
1. **This report reviews Liberia's recent economic developments and progress under the SMP through March 2007.** Full details of the authorities' 2007 program were presented in Country Report No. 07/49. The attached letter of intent (Appendix I) proposes minor adjustments to the quantitative and structural benchmarks for the second-half of 2007, as agreed with the authorities.

2. **Performance under the SMP through March 2007 was satisfactory.** The authorities achieved all but one of the quantitative benchmarks at end-December 2006 and end-March 2007 (Table 1, Appendix I) and completed most of the structural benchmarks, albeit some with delay (Tables 2 and 3, Appendix I). The ceiling on CBL expenditures at end-December was exceeded by a small margin (US\$0.2 million). The authorities submitted legislation for the merger of the Bureau of the Budget (BoB) and Bureau of Maritime Affairs (BMA) into the Ministry of Finance in September 2006 (June 2006 benchmark), and are hopeful it will be considered during the current legislative session. An external audit of the CBL's 2006 accounts (April 2007 benchmark) was conducted, and is expected to be completed soon.

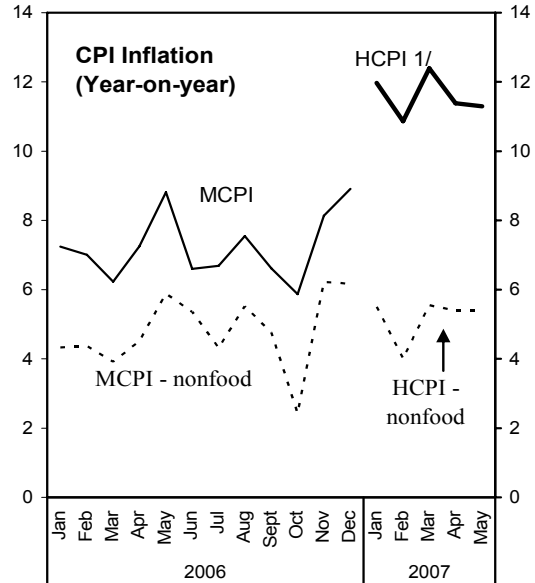
## II. RECENT ECONOMIC DEVELOPMENTS

### Liberia: Selected Economic Indicators, 2006-07

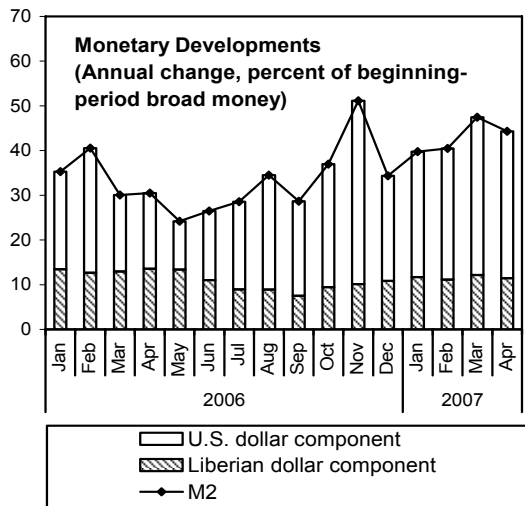
*The nominal exchange rate depreciated moderately....*



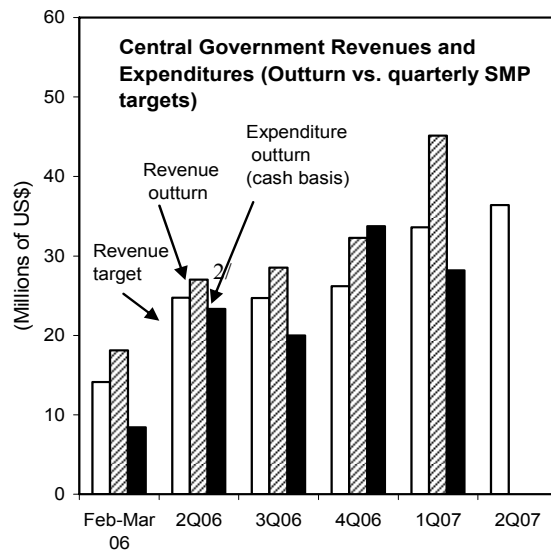
*...and nonfood prices remain in check...*



*...M2 growth rose, mainly because of growth in U.S. dollar liabilities...*



*...public revenues increased beyond program targets, but expenditures did not keep pace*



Sources: Liberian authorities; and IMF staff estimates.

1/ Comparison of the Harmonized CPI with the Monrovia CPI is not possible. The latter, replaced from January 2007, was based on 1964 basket weights, and contained only 79 items, while the HCPI, based on basket weights from neighboring countries, contains 235 items.

2/ Includes over \$13 million of checks issued in 2005/06 which were not cashed until the third quarter of 2006.

### III. POLICY DISCUSSIONS AND THE OUTLOOK FOR 2007

3. **A continued strong effort will be required to implement outstanding structural benchmarks through year-end 2007.** Discussions focused on adjustments to program benchmarks consistent with prospects for the remainder of the year and actions needed to meet these benchmarks, several of which require supportive legislation (including timely passage of the budget).

#### A. Fiscal Policy

4. **As evidenced by the large surplus in the government's accounts at the CBL, bottlenecks have continued to slow expenditure approvals.** The fiscal surplus for 2006/07 is projected at about 3 percent of GDP (commitment basis). The staff and the authorities, however, concurred that efforts to accelerate expenditure in the last quarter of 2006/07 should adhere to the interim commitment control system and public procurement guidelines. To speed the pace of expenditure in 2007/08, line ministries and agencies will need to make further progress on public procurement training supported by technical assistance from the World Bank. Passage of the law to integrate the BoB into the Ministry of Finance would also improve budget execution.

5. **The government has begun implementing their domestic debt resolution strategy (see Box).** However, many claims classified as “contestable” by the external auditors could give rise to future liabilities. The authorities and staff agreed on the need to move swiftly to resolve outstanding issues—including ensuring that it is consistent with plans to restructure the banking sector, and implementing the government's strategy to settle cross debts with state-owned enterprises. The staff emphasized the importance of establishing clear and transparent mechanisms for the Trust Fund envisaged to finance the debt resolution strategy.

6. **In mid-May a cash-based balanced budget for 2007/08 was submitted to the legislature which targets revenues (excluding grants) of US\$182.5 million, a 30 percent increase from the staff's revised projection for 2006/07.<sup>1</sup>** The authorities expect this outturn to stem from stronger revenue administration, continued economic recovery, and a one-off payment of US\$15 million by Mittal Steel.<sup>2</sup> On the expenditure side, the budget

---

<sup>1</sup> The budget does not report on donor assistance outside the budget, but the authorities agree on the importance of gathering donor data in order to enable a complete assessment of the economy-wide spending on infrastructure and social services.

<sup>2</sup> Excluding the one-off payment which was added to the Mittal Steel agreement after renegotiation under the contracts and concessions review, revenues are projected to rise by 19 percent.



### Box. Liberia's Domestic Debt Resolution Strategy

In January 2007 the authorities, assisted by an external auditor, finalized a domestic debt resolution strategy following an extensive review of US\$914 million in claims classified as either “valid,” “contestable,” or “rejected.”<sup>34</sup> Each category claimed roughly a third of the claims (see Table). All valid claims, with the exception of the CBL's, will be discounted at a range of 0 percent for claims below US\$1,000 to 87.6 percent for claims above US\$1 million. Commercial bank claims will be discounted by the average rate for other claims (46.6 percent), though in each case the rate will be calibrated to prevent triggering failure at the bank in question.

	Undiscounted			Total	Discounted
	Valid	Contestable	Rejecte		Valid
Financial Institutions	263.8	25.1	15.2	304.1	263.75
Other	40.1	292.4	277.2	609.8	8.4
<b>Total</b>	<b>303.9</b>	<b>317.5</b>	<b>292.5</b>	<b>913.8</b>	<b>272.2</b>

Source: Liberian authorities.

#### Financial Institutions (FIs)

Of the US\$263.8 million of valid claims to FIs, 97 percent is due to the CBL. Claims owed to FIs will be paid over 30 years beginning in 2007/08, with debt service increasing in the outer years, following a four-year grace period on principal. The total fiscal cost per year for 2007/08–2010/11 will be US\$2.4 million.

#### Other claims (excluding FIs)

Of the US\$40.1 million of other claims, individual claimants have yet to be identified for US\$14 million. The remaining US\$26 million—since discounted to US\$8.4 million—constitute salary arrears to government employees and arrears on goods and services in the past five years. The 2006/07 budget appropriates US\$5.6 million to cover the discounted claims. The remaining US\$2.8 million is expected to be covered under a US\$6 million appropriation for domestic arrears in the 2007/08 budget.

#### Trust Fund

A Trust Fund will be established to ensure that enough resources are available to resolve the debt as planned. To finance the Trust Fund, the government will allocate US\$6 million in the 2007/08 budget (compared with expected domestic debt strategy payments of US\$5.2 million in the fiscal year) and 5 percent of total revenues in 2008/09–10/11 (compared with an expected average fiscal year obligation on valid claims of around 1 percent of revenue). These amounts exclude pre-NTGL salary arrears and foreign mission arrears, which are expected to be paid under a separate appropriation.

<sup>3</sup> This total excludes pre-NTGL civil service and military salary arrears, estimated at US\$30.3 million at end-March 2007, and foreign mission arrears for which reconciliation is ongoing. These arrears are being handled through direct budget appropriations.

<sup>4</sup> Rejected claims comprise those of which the probability of being realized are considered small, while contestable claims comprise those of which the probability of having to honor them are considered nontrivial, although the proof of validity rests with the claimant.

allocates US\$29.1 million to health and education—15.9 percent of total expenditures, from 15.5 percent in the 2006/07 budget.

Liberia: Selected Fiscal Indicators, 2007/08-2009/2010

	2006/07 Rev. proj.	2007/08 Budget	2008/09 Proj.	2009/10 Proj.
	(Percent of GDP)			
Total revenue and grants	22.5	26.0	24.7	25.4
Total revenue	22.1	26.0	23.9	24.6
Tax revenue	21.0	21.0	20.5	20.6
Nontax revenue	1.1	5.1	3.5	4.0
Total expenditure and net lending	22.2	25.4	23.8	24.4
Current expenditure	19.7	22.5	21.4	21.0
wage expenditure	7.7	9.1	9.1	9.1
non wage expenditure	12.0	13.4	12.3	12.0
Capital expenditure	2.4	2.9	2.4	3.4
Real GDP growth (percentage change) <sup>1/2/</sup>	7.8	9.8	12.6	13.5
<p>1/ Calendar year basis, with growth corresponding to calendar year in which fiscal year ends.  2/ The rise in real GDP growth in 2008 is largely due to the resumption of logging and continued growth in the services sector. Together with significant investments in the mining sector, this also supports the acceleration to 2010.</p>				
Sources: Liberian authorities, and IMF staff estimates and projections.				

7. **The budget provides for an increase in civil service wages.** The authorities and the staff agreed on the importance of completing, in a timely manner, with support from the World Bank, the strategy for comprehensive civil service reform to strengthen capacity and reduce wage compression. However, in the interim, the budget provides for an increase in the minimum civil service wage from US\$30 per month to US\$50 per month, and allows for more wage dispersion. The authorities are also developing a Senior Executive Service as an interim measure to attract well-qualified staff. As a result of these steps, the wage bill is projected to increase from 7.0 percent of GDP in 2006/07 to 9.1 percent of GDP in 2007/08, but would still account for a lower share of revenues (35 percent) than in, for example, WAEMU countries (38 percent in 2006).<sup>5</sup> Preliminary projections show that under the assumption of an unchanged wage bill, this could result in a temporary lowering of budgeted capital expenditure (as a share of GDP) in 2008/09 (see text table), although the bulk of capital spending will continue to be financed by donor support outside the budget. On debt servicing, the budget allocates US\$12.7 million for implementation of the domestic debt strategy and US\$3.9 million for external debt payments.

<sup>5</sup> Given the likely underestimation of Liberia's GDP, the wage bill as a percent of revenues provides a more useful comparison.

8. **To achieve the revenue target for 2007/08, the authorities should sustain current efforts in strengthening revenue administration and broadening the tax base.** In this regard, the authorities plan to (i) finish restructuring domestic tax administration by establishing a headquarters in charge of policy formulation and field offices for large, medium and small taxpayers in charge of implementation; (ii) implement the new 9-digit taxpayer identification number; and (iii) further reduce tax exemptions by strictly applying the Liberia Revenue Code (LRC); and (iv) collect from sources which yielded little revenue in 2006/07, including GSM licensing fees and forestry related revenues. On tax incentives, the staff and the authorities agreed on the importance of amending the current law, which allows the government to grant ad hoc special tax incentives (beyond those already provided in the LRC) regardless of an investment's size or strategic significance.

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

9. **Under the current policy framework, the CBL will continue to use the exchange rate to gauge domestic monetary conditions and manage Liberian dollar liquidity to maintain broad exchange rate stability.** In this context, it has continued to hold biweekly foreign exchange auctions, which recently increased in size. However, the accumulation of U.S. dollars in the government's accounts at the CBL has exerted downward pressure on the exchange rate, contributing to upward pressure on inflation. The authorities and staff concurred on the importance for the Ministry of Finance to continue its regular sale of foreign exchange to the CBL, consistent with the assumptions in the monetary program, in order to safeguard the auctions' credibility and maintain broad exchange rate stability.

10. **Consistent with ongoing Fund technical assistance, the monetary policy framework should be strengthened.** Further efforts are needed to finalize the regulations and procedures required to introduce credit and deposit auctions to augment the foreign exchange auction as policy instrument.

11. **Progress has been made in improving bank capitalization, though the banking system remains fragile.** Besides having a high share of nonperforming loans, the sector's income is concentrated in fee-based activities (Table 5). Discounting of banks' claims on the government, provided for in the government's domestic debt resolution strategy, could also adversely impact some banks, although the government committed to prevent the risk of bank failures. Against this background, and given the country's limited regulatory capacity, the staff reiterated the importance of cautiously pursuing any plans to grant licenses to new banks or to deposit-taking microfinance institutions. The submission of four abandoned and nonoperating banks to the courts for final resolution was welcomed, as were plans to submit another two cases by the end of the year.

12. **The financial position of the CBL has continued to improve, but remains vulnerable.** After achieving a lower-than-targeted deficit in 2006 (US\$0.9 million versus US\$1.9 million), the CBL's board of governors in early January approved a 2007 budget

targeting a small surplus, against a program benchmark of a balanced budget. Regularizing the CBL's claims on the government is expected to further boost the CBL's income position in 2007. However, given future spending priorities, including printing new currency and the cost of new monetary policy instruments, it will be important to maintain strict budget discipline. In view of the chief administrator's key role in strengthening financial management, the staff emphasized the importance of his continued involvement in all aspects of CBL management and operations as articulated in his terms of reference.

13. **The recently completed voluntary safeguards assessment of the CBL concluded that significant vulnerabilities exist in the central bank's safeguards framework** (see Informational Annex, Appendix I). The CBL is in the process of addressing these safeguards deficiencies by implementing the recommendations made by staff, including adoption of new audit selection procedures to ensure an external audit in line with international standards and implementation of an internationally recognized financial reporting framework by 2008.

### C. Governance Issues

14. **The mission welcomed the government's recent adoption of an anticorruption strategy, drafted in consultation with international partners.** The strategy, among other things, would establish an independent anticorruption commission with its own investigative and prosecutorial powers. Legislation to establish the commission has been submitted to the president. The staff urged the authorities to move quickly to draft a financial plan for the commission's operation and to seek the necessary donor financing. Swift action would also ensure that the commission's operational costs could be integrated in the national budget cycle.

### D. External Debt and Arrears

15. **Progress has been made in reconciling Liberia's external debt.** Preliminary work on the HIPC Initiative debt sustainability analysis, undertaken in collaboration with the World Bank, confirms Liberia's eligibility to benefit from HIPC Initiative and MDRI-related debt relief, once financing assurances have been obtained. The staff also briefed the authorities on the operational steps involved in arrears clearance.

### E. Data Issues

16. **Progress has been made in rebuilding Liberia's statistical capacity, but more needs to be done to establish the database required for policy formulation and monitoring.** IMF technical assistance has focused on improving fiscal, monetary, and balance of payments statistics; other donors have helped build a store of socioeconomic data. To ensure a comprehensive and prioritized approach to rebuilding Liberia's national statistical capacity, the authorities will need to complete the planned medium-term national statistical plan in consultation with donors in a timely manner.

#### IV. PROGRAM MONITORING AND RISKS

17. **Performance under the SMP will be monitored on the basis of quantitative and structural benchmarks for end-June, end-September and end-December 2007** (Tables 1 and 3, Appendix I). The floor for revenue collections for September and December 2007 has been raised, bringing it in line with the 2007/08 budget. The benchmarks on the foreign exchange reserves accumulated by the CBL for June, September, and December have been changed to reflect the revised monetary program for 2007. The structural benchmark relating to the anticorruption strategy's implementation has also been revised; it now requires the authorities to submit legislation that would establish an independent anticorruption agency.<sup>6</sup> It was also agreed that completion of a national statistical plan would be added as a benchmark for end-September 2007.

18. **Despite progress under the SMP and the government's continued commitment to the reform process, capacity constraints and the political environment, which have led to delays in achieving a number of structural benchmarks under the program, pose considerable risks.**<sup>7</sup> Internal politics, including the election of a new House speaker, have already slowed legislation in 2007. Yet the ability to achieve a number of key structural benchmarks is predicated on legislative action, including passage of the 2007/08 budget and of laws that would eliminate ad hoc investment incentives, integrate the BoB and Bureau of Maritime Affairs into the Ministry of Finance, and establish an independent anticorruption commission. The program's success also hinges on continued financial and technical support from donors.

#### V. STAFF APPRAISAL

19. **Performance under the SMP through March 2007 has been broadly satisfactory.** The government has achieved most of the quantitative benchmarks and completed most of the structural benchmarks under the SMP. The slow pace of expenditure and the resulting accumulation of U.S. dollars in the government's accounts at the CBL, however, have put

---

<sup>6</sup> This benchmark was revised in consultation with the Fund's Legal Department in order to properly sequence the process leading up to the establishment of the anticorruption commission, i.e. requiring establishment of the commission only once legislation has been approved.

<sup>7</sup> For example, on May 24, 2007, the president vetoed the Financial Autonomy Bill under which the legislature would set, and have full control of, its own budget without revision or oversight by any government institution. Passage of this bill would circumvent the interim commitment control system and undermine Liberia's balanced cash-based budget – a cornerstone of the SMP. The legislature could still override this veto with a two-thirds majority.

some downward pressure on the exchange rate to the U.S. dollar. To improve the pace and quality of expenditure, Liberia's line ministries should continue to receive support and training on budget implementation in the near-term while developing a comprehensive and properly sequenced reform plan to further strengthen public financial management.

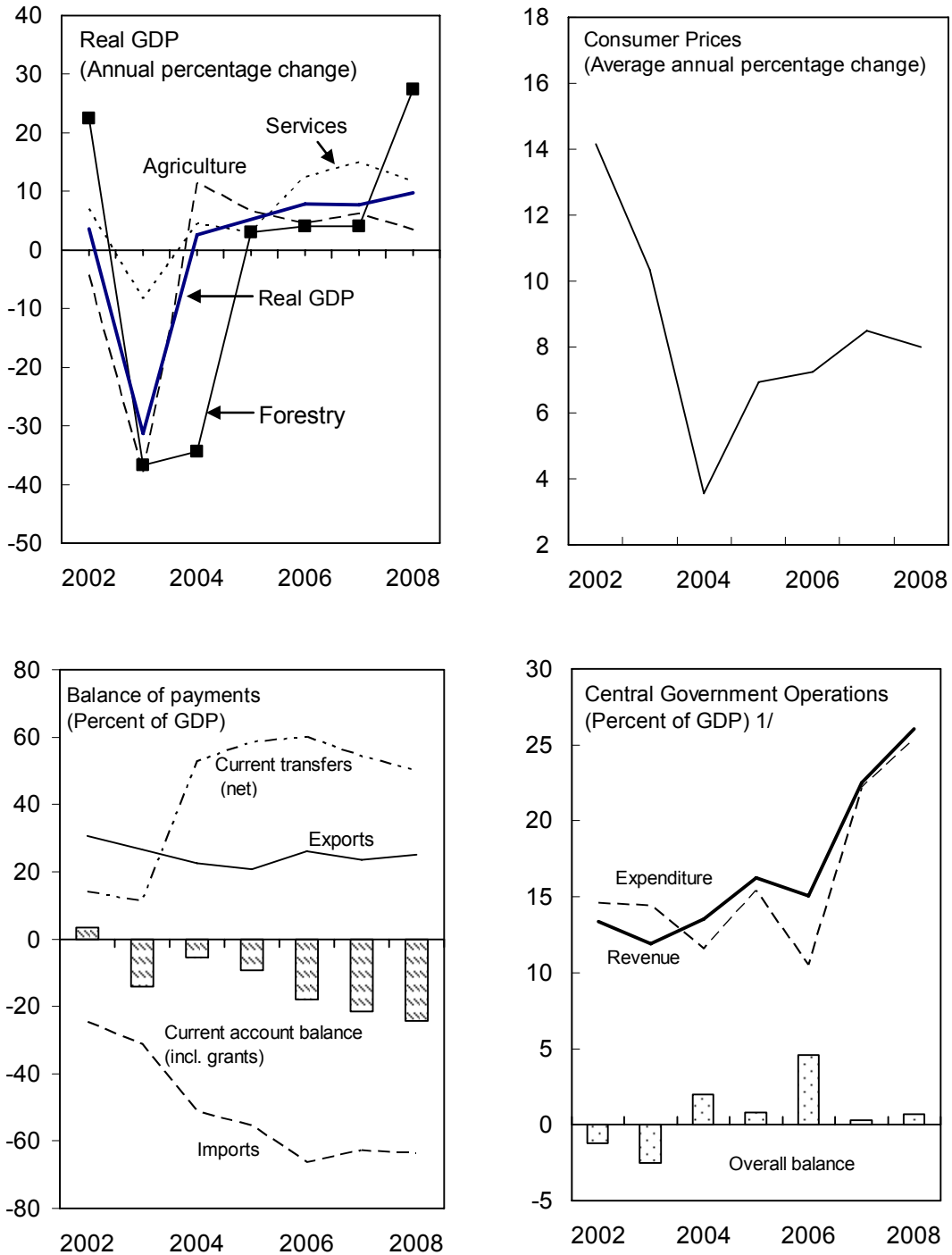
20. **Planned increases in social spending, provided for in the 2007/08 budget, are welcome.** The proposed budget allocates greater resources to the wage bill. While recognizing the need for higher wages, the staff is of the view that a comprehensive civil service reform strategy is needed to strengthen government institutions and guide future wage policy decisions. In further implementing the domestic debt strategy, the government should move quickly to finalize modalities for restructuring banks' claims and establish clear and transparent mechanisms for the Trust Fund that will administer domestic debt.

21. **Meeting inflation objectives will require further efforts to improve the monetary policy framework.** Continued efforts are also required to strengthen financial sector balance sheets and the supervisory framework. Given his central role, the chief administrator should be involved in all aspects of management and operations.

22. **The continued success of the government's program will require prompt action on key legislation, as well as strong technical and financial support from Liberia's international partners.** Timely approval of the 2007/08 budget will be critical in clarifying the resource envelope for the line ministries. Similarly, legislative approval of a proposal to merge the BoB into the Ministry of Finance would enhance budget implementation. The government will also need the support of the legislature to continue implementing its anticorruption strategy and to reform its tax exemption policies.

23. **Liberia's external debt is unsustainable, and comprehensive debt relief is required.** Continued progress under the SMP, along with sufficient indications of support from donors, would be important steps toward clearance of arrears to the IMF. Such progress would also help pave the way for Liberia's timely participation in the HIPC and MDR initiatives.

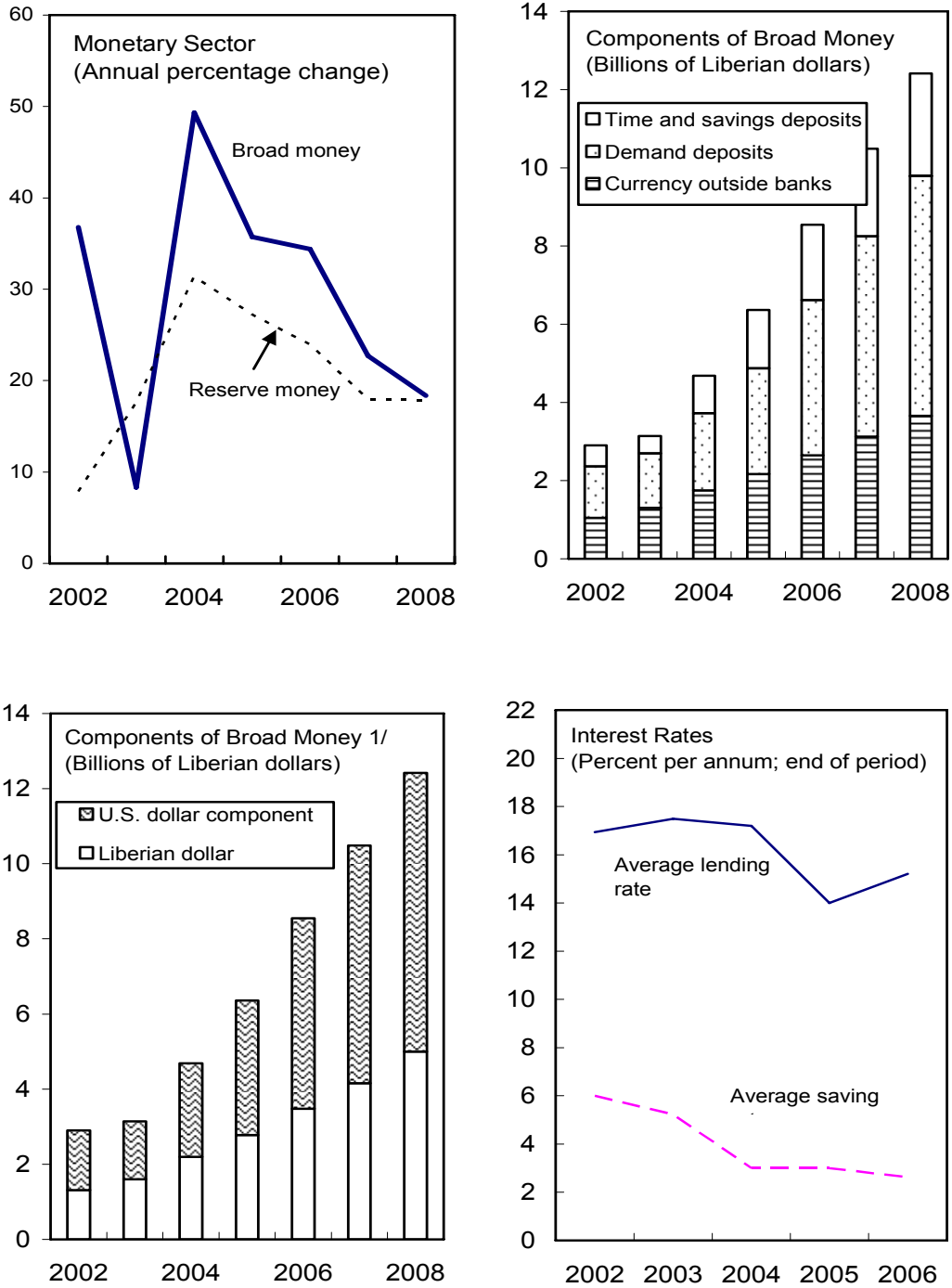
Figure 1. Liberia: Selected Economic Indicators, 2002-08



Sources: Liberian authorities; IMF staff estimates and projections.

1/ Fiscal year (July-June).

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

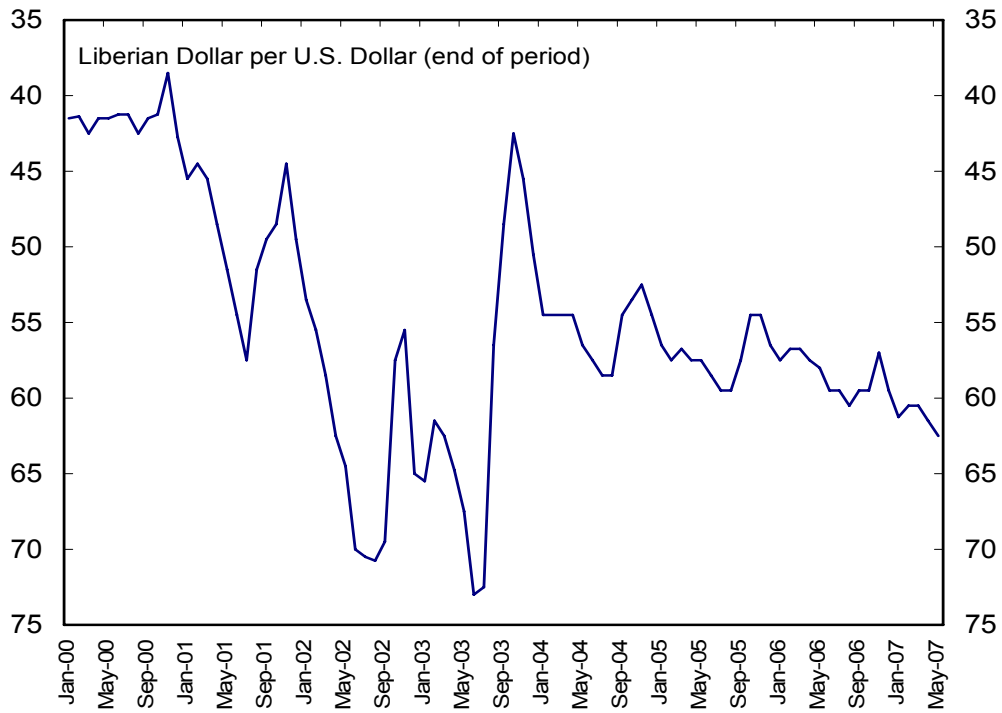
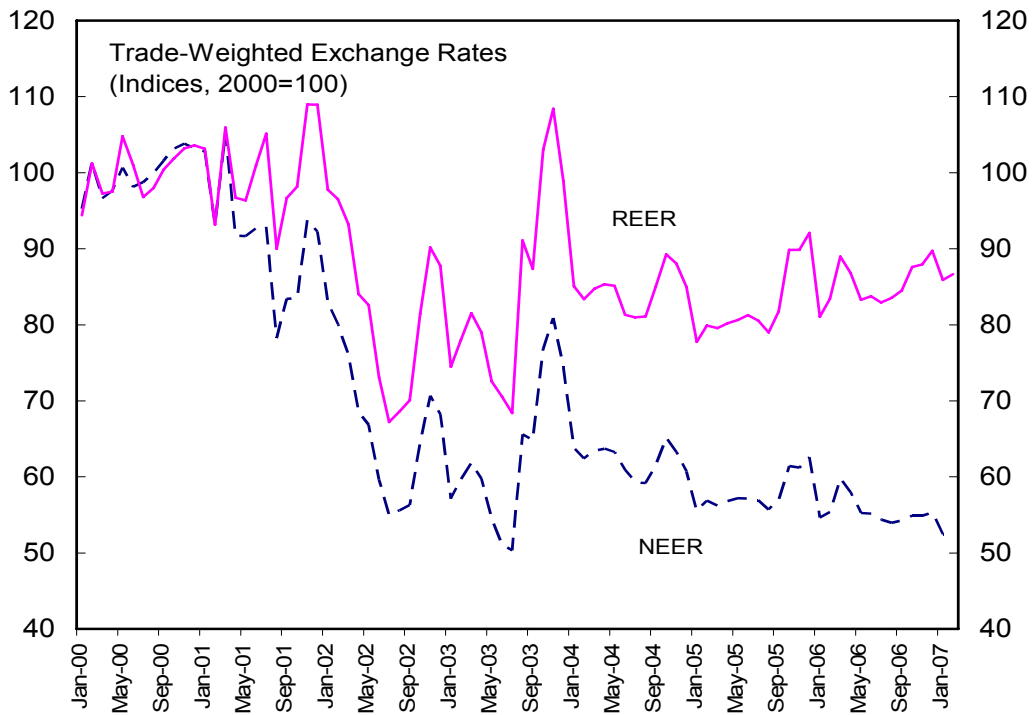


Sources: Liberian authorities; and IMF staff estimates and projections.

1/ Percent of total money supply.



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



Sources: Liberian authorities; IMF staff estimates and projections.

Table 1. Liberia: Selected Economic and Financial Indicators, 2004-08

	2004	2005	2006	2007	2008
	Est.	Est.	Est.	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)					
<b>National income and prices</b>					
Real GDP	2.6	5.3	7.8	7.8	9.8
Consumer prices (annual average) <sup>1/</sup>	3.6	6.9	7.2	8.5	8.0
Consumer prices (end of period) <sup>1/</sup>	7.5	7.0	8.9	7.9	8.3
Nominal GDP (millions of U.S. dollars)	460.0	530.2	605.2	666.8	735.7
GDP deflator in U.S. dollars	9.3	9.5	5.9	2.2	0.5
Real GDP per capita (constant 1992 U.S. dollars)	117.7	122.3	128.8	135.6	145.3
<b>External sector (U.S. dollar terms)</b>					
Exports of goods, f.o.b.	-4.7	6.3	43.0	-0.6	17.1
Imports of goods, f.o.b.	84.4	24.4	36.5	4.2	12.1
Terms of trade (deterioration -)	4.9	3.9	28.7	0.5	-4.7
Official exchange rate (L\$/US\$; end of period)	54.5	56.5	59.5	...	...
Nominal effective exchange rate (end of period)	-18.4	3.1	-11.6	...	...
Real effective exchange rate (end of period)	-14.1	8.4	-2.6	...	...
<b>Central government operations <sup>2/</sup></b>					
Total revenue and grants	4.3	36.1	6.5	67.0	27.7
<i>Of which</i> : tax revenue	13.8	37.1	6.9	64.9	10.2
Total expenditure and net lending	-26.7	51.3	-21.9	136.5	26.1
<i>Of which</i> : current expenditure	67.6	40.6	-14.8	124.2	25.5
capital expenditure	-90.9	186.9	-65.5	324.6	31.0
(Annual percentage change; beginning-period stock of money, unless otherwise indicated)					
<b>Money and banking</b>					
Net foreign assets	-456.0	-96.6	67.9	-20.4	-8.1
Net domestic assets	505.3	132.4	-33.6	43.1	26.5
Net claims on government	533.5	133.4	-23.9	-13.9	0.0
Claims on nongovernment	21.1	7.2	17.2	4.4	6.9
Other items net	-49.4	-8.3	-26.9	52.6	19.6
Broad money (M2) <sup>3/</sup>	49.3	35.7	34.4	22.7	18.3
Velocity (GDP relative to broad money)	5.3	4.7	4.2	3.8	3.7
Reserve money	31.4	27.2	23.9	18.0	17.9
Broad money (stocks, billions of Liberian dollars)	4.7	6.4	8.5	10.5	12.4
Liberian dollar component	2.2	2.8	3.5	4.2	5.0
U.S. dollar component	2.5	3.6	5.1	6.3	7.4
(Percent of GDP)					
<b>Central government operations (January-December) <sup>2/</sup></b>					
Total revenue and grants	13.6	16.2	15.1	22.5	26.0
<i>Of which</i> : total revenue	12.9	16.0	14.9	22.1	26.0
Total expenditure and net lending	11.6	15.4	10.5	22.2	25.4
<i>Of which</i> : current expenditure	10.7	13.3	9.9	19.7	22.5
capital expenditure	0.9	2.1	0.6	2.4	2.9
Overall fiscal balance (cash basis)	2.0	0.8	4.6	0.3	0.7
<b>External sector</b>					
Current account balance, including grants (deficit, -)	-5.6	-9.4	-18.0	-21.6	-24.4
<i>Of which</i> : public interest payments due	-11.7	-15.6	-17.0	-16.7	-15.9
Current account balance, excluding grants (deficit, -)	-46.7	-63.5	-68.1	-66.8	-66.1
Trade balance (deficit, -)	-28.7	-34.6	-40.2	-39.1	-38.7
Exports, f.o.b.	22.6	20.8	26.1	23.5	25.0
Imports, f.o.b.	-51.3	-55.4	-66.2	-62.6	-63.6
Public sector external debt outstanding (total)	812.0	690.3	748.1	680.2	615.0
(Millions of U.S. dollars, unless otherwise indicated)					
Current account balance including grants (deficit, -)	-25.7	-49.9	-108.7	-144.0	-179.5
Trade balance (deficit, -)	-132.2	-183.2	-243.1	-260.8	-284.4
CBL's net foreign exchange position	3.3	6.5	21.8	31.6	42.4
(months of imports of goods and services)	0.1	0.2	0.5	0.7	0.8

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

<sup>1/</sup> Technical adjustments were made to the CPI in 2004 in light of the substitution of some items in the CPI survey in mid-2004.<sup>2/</sup> Fiscal year basis (July-June).<sup>3/</sup> Defined as Liberian currency outside banks plus demand, time, and savings deposits in Liberian and U.S. dollars.

Table 2. Liberia: Balance of Payments, 2004-08

	2004	2005	2006	2007	2008
	Est.	Est.	Proj.	Proj.	Proj.
(Millions of U.S. dollars, unless otherwise indicated)					
Trade balance	-132	-183	-243	-261	-284
Exports, f.o.b.	104	110	158	157	184
Of which: rubber	93	99	150	120	109
timber	0	0	0	0	53
Imports, f.o.b.	-236	-294	-401	-418	-468
Petroleum	-66	-89	-98	-99	-107
Rice	-34	-30	-57	-37	-35
Donor + FDI related	-106	-141	-168	-166	-169
Other	-30	-35	-79	-117	-157
Services (net)	-49	-65	-91	-99	-92
Income (net)	-87	-113	-138	-147	-172
Of which: public interest payments due	-54	-82	-103	-111	-117
Current transfers (net)	243	311	364	363	369
Donor transfers (net) <sup>1/</sup>	189	287	303	302	307
Private transfers (net)	53	24	60	61	62
Current account balance	-26	-50	-109	-144	-180
Current account balance, excluding grants	-215	-337	-412	-446	-487
Capital and financial account	-54	-65	-15	6	21
Official financing	-30	-36	-36	-36	-36
Disbursements	0	0	0	0	0
Amortization	-30	-36	-36	-36	-36
Private financing	-24	-29	21	42	57
Direct foreign investment	0	3	6	11	183
Other investment (incl. trade credit)	-24	-32	15	31	-126
Errors and omissions	0	0	0	0	0
Overall balance	-79	-115	-124	-138	-159
Financing	79	115	124	138	159
Change in official reserves (increase -)	-5	-3	-15	-10	-11
Arrears (accrual +) <sup>2/</sup>	84	118	139	147	153
Use of Fund credit (net change in arrears)	10	17	17	17	17
Increase in non-Fund arrears	74	101	122	130	136
Memorandum items:					
Current account balance (percent of GDP):					
Including grants	-5.6	-9.4	-18.0	-21.6	-24.4
Excluding grants	-46.7	-63.5	-68.1	-66.8	-66.1
Excluding grants and public interest payments due	-35.0	-48.0	-51.0	-50.1	-50.2
Trade balance (percent of GDP)	-28.7	-34.6	-40.2	-39.1	-38.7
Donor transfers (net) (percent of GDP)	41.1	54.1	50.1	45.3	41.7
Public sector external debt (medium and long term)					
Debt outstanding, including arrears	3,735	3,660	4,527	4,536	4,525
(percent of exports of goods and services)	2,606	2,402	2,079	2,094	1,783
(percent of GDP)	812	690	748	680	615
Debt service charges	83.9	118.4	139.0	147.4	153.1
(percent of GDP)	18.3	22.3	23.0	22.1	20.8
Terms of trade (1997=100)	136.7	142.1	183.0	183.8	175.2
CBL's net foreign exchange position	3	7	22	32	42
CBL's net foreign exchange position (in months of imports of goods and services)	0.1	0.2	0.5	0.7	0.8
CBL's net foreign exchange position (in months of non-donor imports)	0.2	0.3	0.7	0.9	1.1
GDP at current prices	460	530	605	667	736

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

1/ The assumed steady rise in donor inflows (about half the rate of nominal GDP growth) is based on Liberia's extensive reconstruction needs and assumed strong donor support. Donor inflows in the first few years after 2007 are expected to be affected by the projected reduction in UNMIL operations.

2/ Apart from token payments to international financial institutions, Liberia is not servicing its external debt.

Table 3. Liberia: Summary of Central Government Operations, 2004/05-07/08

	2004/05	2005/06	2006/07 Budget	2006/07 Revised Budget	2006/07 Revised Proj.	2007/08 Proj.
	(Millions of U.S. dollars)					
Total revenue and grants <sup>1/</sup>	80.3	85.6	120.9	132.9	142.9	182.5
Total revenue	79.3	84.6	120.9	130.2	140.2	182.5
Tax revenue	75.7	81.0	116.8	118.9	133.5	147.1
Taxes on international trade and transactions	30.2	35.3	56.4	56.4	64.6	68.8
Taxes on income	28.4	25.1	33.7	33.7	43.5	48.6
Taxes on goods and services	16.9	20.3	21.2	21.2	24.2	26.9
Of which: maritime revenues	10.1	12.1	11.0	11.0	11.1	13.0
Other	0.3	0.3	5.5	7.6	1.4	2.8
Of which: overdue tax collection	0.0	0.0	4.8	6.9	0.5	1.6
Nontax revenue	3.6	3.6	4.1	11.3	6.7	35.4
Of which: stumpage fees and land rental	0.0	0.0	0.0	1.6	0.0	3.7
Of which: income and transfer from SOEs	0.0	0.0	0.8	0.8	0.8	0.9
Of which: GSM fees	0.0	0.0	0.0	5.0	0.0	5.6
Of which: Mittal Steel social development fund	0.0	0.0	0.0	0.0	0.0	3.0
Of which: Mittal Steel royalty	0.0	0.0	0.0	0.0	0.0	0.0
Of which: onetime payment from Mittal Steel	0.0	0.0	0.0	0.0	0.0	15.0
Grants	1.0	1.0	0.0	2.7	2.7	0.0
Total expenditure and net lending (cash basis) <sup>1/</sup>	76.3	59.6	137.1	151.0	141.0	177.8
Current expenditure	65.7	56.0	117.8	130.5	125.5	157.5
Wages and salaries	42.3	29.4	48.5	49.1	49.1	63.5
Goods and services	16.0	15.4	46.9	50.0	45.0	53.4
Interest on debt	1.4	1.4	6.1	13.7	13.7	11.9
External <sup>2/</sup>	0.0	0.0	0.0	0.0	0.0	0.0
Domestic <sup>3/</sup>	1.4	1.4	6.1	13.7	13.7	11.9
of which: restructured debt to financial institutions	...	...	0.0	0.0	0.0	2.4
of which: restructured debt to non-financial institutions	...	...	4.0	6.0	6.0	2.8
of which: pre-NTGL salary arrears	...	...	1.3	6.4	6.4	5.2
of which: foreign mission arrears	...	...	0.0	0.5	0.5	1.5
Subsidies, transfers, and net lending <sup>4/</sup>	6.0	9.8	16.4	17.6	17.6	28.6
Capital expenditure	10.6	3.7	19.3	20.6	15.6	20.4
Statistical discrepancies	0.0	0.0	0.0	0.0	0.0	0.0
Overall surplus or deficit (cash basis) <sup>5/</sup>	4.0	25.9	-16.2	-18.2	1.9	4.7
Adjustment to cash basis <sup>6/</sup>	na	17.4	-17.4	-17.4	-17.4	0.0
Overall surplus or deficit (commitment basis)	na	8.5	1.2	-0.8	19.3	...
Total financing	-0.7	-8.5	16.2	18.2	-1.9	-4.7
Foreign borrowing (net)	-0.7	-1.1	-1.2	-1.4	-1.4	-3.9
Exceptional financing	-0.7	-1.1	-1.2	-1.4	-1.4	-3.9
Payment of external arrears (-)	-0.7	-1.1	-1.2	-1.4	-1.4	-3.9
of which: Payment to IFIs (-)	-0.7	-1.1	-1.2	-1.2	-1.2	0.0
Domestic borrowing (net)	0.0	-7.5	17.4	19.5	-0.5	-0.8
Exceptional financing	0.0	-7.5	17.4	19.5	-0.5	-0.8
Payment of domestic arrears (-)	0.0	-7.5	0.0	0.0	0.0	0.0
Accumulation in domestic debt trust fund (-)	...	...	0.0	0.0	0.0	-0.8
Accumulation in GOL balance at CBL (-)	...	...	17.4	19.5	-0.5	0.0
<i>Memo item:</i>						
Additional grant financed projects w/govt. involvement <sup>7/</sup>	0.0	4.0	11.3	11.3	11.3	37.7
	(Percent of GDP, unless otherwise indicated)					
Total revenue and grants	16.2	15.1	19.0	20.9	22.5	26.0
Total revenue	16.0	14.9	19.0	20.5	22.1	26.0
Grants	0.2	0.2	0.0	0.4	0.4	0.0
Total revenue (excl. onetime payments from Mittal Steel)	14.9	14.9	19.0	20.5	22.1	23.5
Total expenditure and net lending	15.4	10.5	21.6	23.7	22.2	25.4
Current expenditure	13.3	9.9	18.5	20.5	19.7	22.5
Of which: wages and salaries <sup>8/</sup>	8.5	5.2	7.6	7.7	7.7	9.1
Capital expenditure	2.1	0.6	3.0	3.2	2.4	2.9
Overall surplus or deficit (incl. grants, cash basis) <sup>4/</sup>	0.8	4.6	-2.6	-2.9	0.3	0.7
Overall surplus or deficit (incl. grants, commitment basis)	na	1.5	0.2	-0.1	3.0	...
Grants	0.2	0.2	0.0	0.4	0.4	0.0

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

1/ Expenditure projections include \$17.4 million of commitments at end-2005/06 projected to be recorded as expenditures in 2006/07.

2/ Preliminary assumption is that payments on external debt will remain unchanged following decision point (US\$100,000 per month to the IMF, WB and

3/ Following commencement of implementation of the domestic debt strategy in 2006/07, payments previously reported as domestic arrears are now classified as payment of domestic debt. Contributions to the domestic debt trust fund are reported below the line.

4/ The 62 percent increase in 2007/08 is driven, in part from a revitalization of SOEs, the Liberia Electric Corporation and the Liberia Electricity Corporation and the transfer to local authorities of \$3 million in revenues from Mittal Steel for community development in Nimba, Bong and Grand Bassa counties.

5/ For 2007/08 and beyond, note that once arrears payments and contributions to the domestic debt trust fund are accounted for the fiscal balance is zero.

6/ Adjustments in 2005/06 and 2006/07 are a result of commitments at end-2005/06 projected to be recorded as expenditures in 2006/07.

7/ Includes initial disbursements under a WB pre-arrears clearance grant (\$30 million) and AfDB ISP grant (\$4.5 million). Some of the projects funded by these grants are managed through the MDB-supported Project Financial Management Unit at the MoF and are implemented with assistance from ministries, but remain outside the budget. The increase in 2006/07 reflects greater government involvement in implementation of donor-funded projects.

8/ For 2006/07, when reported on a commitment basis, the value is 7 percent.

Table 4. Liberia: Monetary Survey, 2004-08

	2004 Dec.	2005 Dec.	2006 Dec.	2007 Dec. Proj.	2008 Dec. Proj.
(Millions of Liberian dollars, unless otherwise indicated)					
Net foreign assets	-44,646	-49,175	-44,854	-46,598	-47,452
<i>Of which</i> : Fund credit and overdue charges	-45,998	-51,422	-50,537	-52,558	-53,651
<i>Of which</i> : CBL's gross foreign reserves	1,019	1,432	4,281	3,635	4,617
assets corresponding to government U.S. dollar-denominated deposits at CBL	107	70	1,443	0	0
assets corresponding to commercial banks' U.S. dollar deposits at CBL	730	993	1,540	1,757	2,057
CBL's net foreign exchange position	183	370	1,297	1,878	2,560
Net domestic assets	49,333	55,537	53,402	57,088	59,867
Net domestic credit	63,003	69,593	69,172	68,359	69,083
Net claims on government	60,343	66,594	65,076	63,886	63,886
<i>Of which</i> : Fund credit and overdue charges	45,998	51,422	50,537	52,558	53,651
Claims on private sector	1,651	2,064	3,078	4,237	4,960
Claims on public enterprises	106	83	147	147	147
Claims on nonbank financial institutions	187	110	90	90	90
<i>Claims on non government</i>	2,660	2,999	4,096	4,473	5,197
Other items, net	-13,669	-14,056	-15,770	-11,272	-9,216
Monetary aggregates					
Currency outside banks (Liberian banknotes and coins only)	1,755	2,169	2,648	3,128	3,658
Commercial bank reserves at Central Bank of Liberia 1/	142	230	420	490	609
<i>Of which</i> : required reserves	111	155	208	226	295
Reserve money 2/	2,050	2,609	3,233	3,814	4,496
Commercial bank deposits 3/	2,932	4,193	5,901	7,362	8,757
Total demand deposits	1,972	2,702	3,973	5,117	6,128
Liberian dollar-denominated deposits	184	221	342	471	689
U.S. dollar-denominated deposits	1,788	2,481	3,631	4,646	5,439
Time, savings, and other deposits	960	1,491	1,928	2,245	2,629
Liberian dollar-denominated deposits	260	392	484	555	650
U.S. dollar-denominated deposits	700	1,099	1,444	1,690	1,978
Broad money (M2) 4/	4,687	6,362	8,549	10,490	12,415
Liberian dollar component	2,199	2,781	3,473	4,154	4,997
U.S. dollar component	2,488	3,581	5,075	6,336	7,418
Memorandum items:					
U.S. dollar component broad money (excluding banknotes, millions of U.S. dollars)	45.7	63.4	85.3	106.5	117.5
U.S. dollar component of broad money (percent of broad money, excluding banknotes)	53.1	56.3	59.4	60.4	59.8
U.S. dollar-denominated demand deposits (millions of U.S. dollars)	32.8	43.9	61.0	78.1	86.2
U.S. dollar-denominated time, saving, and other deposits (millions of U.S. dollars)	12.8	19.5	24.3	28.4	31.3
Broad money (annual change)	49.3	35.7	34.4	22.7	18.3
Liberian dollar component broad money (percent of beginning period broad money)	19.0	12.4	10.9	8.0	8.0
U.S. dollar component broad money (percent of beginning period broad money)	30.3	23.3	23.5	14.7	10.3
CBL's net foreign exchange position (millions of U.S. dollars)	3.3	6.5	21.8	31.6	42.4
Money Multiplier	2.3	2.4	2.6	2.8	2.8
Velocity (GDP relative to broad money)	5.3	4.7	4.2	3.8	3.7
Currency/deposits (percent; Liberian dollars only)	395	354	321	305	273
Nominal GDP (annualized basis)	25,068	29,954	36,008	39,675	46,451

Sources: Liberian authorities; and IMF staff estimates.

1/ Derived from commercial banks' balance sheets (Liberian dollar denominated).

2/ Liberian dollar currency outside banks and commercial banks reserves (Liberian dollar denominated) held at central bank.

3/ Excluding one bank (May 2003).

4/ Excluding U.S. dollars in circulation.

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

	2003	2004	2005	2006	2007
	Dec.	Dec.	Dec.	Dec.	Feb.
Number of banks	3	3	5	5	5
Capital adequacy					
Regulatory capital to risk-weighted assets 1/	-2.0	-4.4	2.3	7.1	8.7
Asset quality					
Nonperforming loans to total loans	62.0	23.8	15.5	44.5	23.9
Loan loss provisions to nonperforming loans	94.0	79.0	97.0	52.2	180.2
Loan concentration	100.0	100.0	100.0	100.0	100.0
Agriculture	9.2	8.0	10.6	7.1	7.1
Mining and quarrying	0.0	0.0	0.1	0.0	0.0
Manufacturing	0.4	0.7	0.5	1.1	1.1
Construction	2.6	2.3	2.7	5.9	7.1
Transportation, storage, and communication	0.2	1.8	4.4	4.1	3.7
Trade, hotels, and restaurants	10.0	19.1	13.5	18.8	16.6
Others	77.7	68.0	68.1	62.9	64.4
Government of Liberia	28.4	25.6	27.2	18.7	17.8
Central Bank of Liberia	30.7	27.7	26.8	20.4	19.4
Earnings and profitability					
Return on assets	-24.0	-3.0	0.5	-2.0	-0.3
Return on equity	-32.5	-32.6	3.2	-14.9	-2.7
Noninterest income to total income	81.0	84.8	81.4	75.8	96.5
Net interest margin	2.0	1.4	1.8	2.8	1.6
Liquidity					
Liquid assets to net assets	51.0	40.0	17.8	41.8	41.1

Source: CBL.

1/ Adjusted by the CBL.

**Liberia. Appendix I – Letter of Intent**

Monrovia, June 28, 2007

Mr. Rodrigo de Rato  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
USA

Dear Mr. de Rato:

The outlook for the Liberian economy continues to improve. The maintenance of macroeconomic stability and strong growth prospects, lifting of UN sanctions, and increasing investor interest in Liberia are signs that progress in implementing our ambitious reform program is translating into positive outcomes. This progress, which was recognized by our development partners at the February 2007 Partners Forum, has resulted in renewed commitment of both financial and technical support, including pledges to support debt relief for Liberia. We remain strongly committed to continuing our reform efforts, including making progress on the SMP objectives and implementing technical assistance recommendations provided by the IMF and other partners.

The government has made good progress in meeting SMP benchmarks. All but one of the end-December 2006 and end-March 2007 quantitative benchmarks were met. Public revenues substantially exceeded program targets and more progress was made in improving the central bank's finances. On the structural side, we have made good progress in achieving the outstanding 2006 and end-March 2007 benchmarks, including the introduction of the Harmonized CPI, commencing implementation of the government's domestic debt strategy, and adoption of audit selection criteria to ensure that audits of the central bank will be conducted by a qualified firm of international repute. The external audit of the CBL's 2006 accounts was conducted, and we are hopeful it will be completed soon. We will also continue to work with the legislature to seek passage of legislation to integrate the Bureau of the Budget and Bureau of Maritime Affairs into the Ministry of Finance.

Adherence to a transparent budget timetable enabled us to submit the 2007/08 budget to the legislature on May 17, 2007. Our cash-based balanced budget targets revenues (excluding grants) of US\$182.5 million. We see this target as achievable in view of a one-off payment of US\$15 million and the first annual payment of US\$3 million for community development to the government following approval of the Mittal Steel agreement, and our continued efforts to enhance revenue efficiency and broaden the tax base. On the expenditure side, our budget is aligned with the developmental priorities identified in our interim poverty reduction strategy paper. To this end, the total allocation for ministries and agencies that are expected to deliver direct social services, such as education, health, agriculture, public works, and water and sanitation, has been increased by 39 percent (US\$42.5 million) from

the 2006/07 budget. The budget also provides for an increase in the civil service wage bill (by 43 percent compared with the previous year). This greater allocation will enable the government to raise the minimum civil service wage to US\$50 per month from US\$30 per month, as well as to begin addressing wage compression. Finally, the 2007/08 budget fully provides for implementation of our domestic debt resolution strategy (US\$12.7 million) and allocates US\$3.9 million for arrears payments.

The primary objectives of the government's economic program for 2007, monitored by the IMF staff, are described in our letter of intent and accompanying memorandum of economic and financial policies of January 18, 2007. The main objectives of our program are to continue efforts to strengthen public financial management and the financial sector, and to begin implementing our domestic debt resolution and anticorruption strategies. During the March 29–April 11, 2007, SMP review mission, we agreed on revised quantitative benchmark targets for 2007 based on 2007/08 fiscal budget targets, the 2007 budget for the central bank, and a revised monetary program consistent with price stability. We also agreed to a revised structural benchmark relating to the implementation of our anticorruption strategy (submit required legislation for establishment of an independent anticorruption agency for legislative approval) and to add a new benchmark (prepare a medium-term national statistical plan by end-September 2007).

Resolving Liberia's debt overhang remains a high priority for the government. Debt relief under the HIPC Initiative and the MDRI is essential if we are to normalize our relations with creditors and assume a path to sustainable development. The IMF staff has concluded that the policies under the 2007 program meet the standard of an upper credit tranche Fund arrangement, apart from program financing assurances. We believe that Liberia's performance under the SMP continues to be good, and apart from financing assurances from donors to fund debt relief, could be counted toward a track record to reach the decision point under the HIPC initiative. We urge management and the Executive Board to take this into consideration when determining the track record Liberia needs to reach the HIPC decision point.

The policies and measures set forth in the letter of intent dated January 18, 2007, the accompanying MEFP, and this letter, reflect the understandings reached with the IMF staff during the November 2006 mission and are consistent with understandings reached in the April 2007 SMP review mission. We believe these measures will allow us to achieve the objectives of the program, but will, take any additional measures that may become necessary



for this purpose. We continue to consult closely with the IMF staff on our adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. The government will provide the IMF staff with all the information it requests to assess implementation of the SMP.

Sincerely yours,

/s/

Antoinette M. Sayeh  
Minister of Finance

/s/

Joseph Mills Jones  
Governor of the CBL

Attachments: Quantitative Indicators for 2006-7  
SMP for February-September 2006-Structural Benchmarks  
Structural Benchmarks for 2007 SMP

Table 1. Liberia: Quantitative Indicators 2006-07 (Cumulative basis from end of fiscal year, unless otherwise noted)  
(Millions of US dollars)

	Jun. 06 <sup>3/</sup>		Sep. 06		Dec. 06		Mar. 07		Jun. 07		Sep. 07		Dec. 07	
	Act.	Prog.	Act.	Rev. Prog.	Act.	Rev. Prog.	Act.	Prog.	Act.	Rev. Prog.	Act.	Rev. Prog.	Act.	Rev. Prog.
<b>Fiscal</b>														
Floor on revenue collections	84.6		28.5	50.9	60.8	84.5	105.9	120.9	120.9	120.9	30.1	37.5	62.5	79.9
Floor on cash-based fiscal balance <sup>1/</sup>	19.5		8.6	-19.5	7.0	-19.5	24.0	-19.5	-19.5	-19.5	0.0	0.0	0.0	0.0
Ceiling on new noncash tax/duty payment (continuous basis)	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic borrowing (continuous basis)	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new external borrowing (continuous basis)	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables (excluding the arrears arising from the current debt outstanding) (continuous basis)	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CBL</b> <sup>2/</sup>														
Ceiling on expenses	2.6		4.6	6.0	6.2	1.3	1.0	2.6	2.6	2.6	3.9	3.9	5.3	5.3
Ceiling on payments arrears (continuous basis)	0.0		...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on CBL's cash-based budget balance	-0.4		-1.1	-1.9	-0.9	-0.1	0.7	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Floor on the CBL's net foreign exchange position	13.6		17.7	19.8	21.8	22.7	24.3	25.7	26.8	26.8	28.9	29.3	31.6	31.6
<b>Other</b>														
Floor on token payments to the Fund (in US\$) (continuous basis)	680,000		180,000	360,000	360,000	540,000	540,000	720,000	720,000	720,000	180,000	180,000	360,000	360,000

<sup>1/</sup> The fiscal balance, on a cash 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).

<sup>2/</sup> The original program data for September 2006 reflects actual outturn at end-June, plus the original flow targets for September.

<sup>3/</sup> The floor on revenue collections is total revenue for FY05/06, and the floor on cash-based fiscal balance is accumulated government surpluses at the CBL as of end-June 2006. Most of the latter amount represents checks approved and issued by the CMC prior to end-FY05/06 that were not cashed prior to end-FY05/06. After taking into account commitments made but not cashed, the uncommitted balance of the government account at the CBL at end-June 2006 was \$2.1 million. Under the cash-based budget, expenditures are recorded when they are cashed at the CBL.

Table 2. SMP for February-September 2006—Structural Benchmarks

Measures	Target dates	Status
<b>Fiscal Management</b>		
Strengthen the Large Taxpayer Unit (LTU) <ul style="list-style-type: none"> <li>• Create a large taxpayer audit unit inside the LTU with reallocation of staff within MoF</li> <li>• Introduce a monthly information exchange to the LTU from BIVAC</li> </ul>	End-March 2006	Implemented by end-March 2006
Increase the number of large taxpayers from 60 to 110 by auditing hidden taxpayers and/or lowering the threshold value	End-June 2006	Implemented by end-July 2006
Develop a timetable to ensure approval of the 2006/07 budget	End-March 2006	Implemented by end-March 2006
Submit budget for legislative approval before the fiscal year's start	End-June 2006	Implemented by end-June 2006
Develop a strategy to deal with overdue tax obligations	End-June 2006	Implemented by end-July 2006
Implement an interim commitment control system in accordance with FAD TA recommendations: <ul style="list-style-type: none"> <li>• The Bureau of the Budget to allocate only to line ministries in line with monthly cash plans</li> <li>• The line ministries to ensure that their commitments do not exceed allotments</li> <li>• The MoF to issue a public announcement that only purchase orders with the Bureau of General Accounting's special seal would be valid</li> </ul>	Continuous from end-June 2006	Implemented from end-June 2006
Integrate the Bureau of the Budget and the Bureau of Maritime Affairs into the Ministry of Finance	End-June 2006	Ongoing – legislation expected to be considered during 2007 legislative session
Establish the stock of domestic debt of the GOL, and complete the verification process	End-June 2006	Implemented by end-December 2006
Finalize the domestic debt resolution strategy, consistent with a restructuring plan for the CBL	End-September 2006	Implemented by end-January 2007
<b>CBL Operations</b>		
Revise the terms of reference for the money management committee to reflect the new responsibility of monetary policy, and ensure the committee operates in accordance with its ToR	Continuous from end-March 2006	Implemented from end-March 2006
Publicize the final Monetary Policy Framework paper on the CBL website	End-March 2006	Implemented by end-March 2006
Formulate a financial restructuring plan for CBL in collaboration with GOL, supported by IMF TA experts	End-September 2006	Implemented by end-December 2006
Hold regular weekly or biweekly foreign exchange auctions	Continuous from end-March 2006	Implemented from end-March 2006

Table 2. SMP for February-September 2006—Structural Benchmarks (cont.)

Measures	Target dates	Status
Conduct an external audit of the CBL by auditors with an international reputation	End-September 2006	Ongoing – expected to be completed soon
<b>Governance and other issues</b>		
Finalize the program for prioritizing and reviewing all concessions, contracts, and licenses granted under NTGL, and identify associated revenue flows, with assistance from international partners	End-April 2006	Implemented by end-April 2006
Complete review of concessions, contracts, and licenses granted under the NTGL, with assistance from international partners	End-September 2006	Implemented by end-December 2006
Implement recommendations of audit of travel expenses, including revision of policy on travel allowances	Continuous from end-March 2006	Implemented from end-March 2006
Develop a national anticorruption strategy for the GOL, including a policy matrix for implementation, with assistance from international partners	End-May 2006	Implemented by end-December 2006
Post on MoF's website complete financial statements of revenue-generating agencies (National Ports Authority, Roberts International Airport, Liberian Petroleum Refining Corporation, Forestry Development Authority, and Bureau of Maritime Affairs), endorsed by financial controllers	End-September 2006	Implemented by end-December 2006
Submit a status report, endorsed by the Economic Governance Steering Committee, on implementation of the Governance and Economic Management Assistance Program	End-September 2006	Implemented by end-December 2006

Table 3. Structural Benchmarks for 2007 SMP

<u>Measures</u>	<u>Target dates</u>	<u>Status</u>
<b>Fiscal Policy</b>		
Commence implementation of the domestic debt resolution strategy, and develop a plan to settle cross-debts between the government and state-owned enterprises	End-March 2007	Implemented by mid-April 2007
Submit a balanced cash-based budget for 2007/08 for legislative approval	End-May 2007	Budget submitted to legislature on May 17
Develop and implement a comprehensive plan to reform the investment incentive code and submit legislation to repeal Section 204(e) of the Liberia Revenue Code of 2000, as well as the 2004 Act amending the code, which allowed the government to enter into ad hoc tax concession agreements with individual investors	End-June 2007	Draft legislation has been developed and is being prepared for presentation to cabinet
Reorganize administration of domestic taxes by taxpayer segmentation	End-June 2007	Good progress has been made
<b>Financial Sector</b>		
Establish clear audit selection and rotation procedures and criteria for the CBL to select an internationally reputable audit firm to conduct the CBL's future external audits, pursuant to ISA, beginning in financial year 2007	End-March 2007	Implemented by mid-June 2007
Appoint an auditor, consistent with the criteria above, to audit the CBL's financial accounts for 2007	End-September 2007	
Develop a restructuring plan for the remaining undercapitalized banks consistent with the CBL's Bank Reconstruction and Resolution Policy	End-June 2007	
<b>Other Areas</b>		
Submit required legislation for establishment of an independent anticorruption agency for legislative approval, consistent with the government's anticorruption strategy	End-September 2007	
Submit for legislative enactment an administrative procedure law that establishes a transparent process for the issuance of regulations pursuant to the Liberia Revenue Code of 2000, and submit legislation to repeal other laws and revoke regulations that are inconsistent with the law	End-September 2007	
Develop a comprehensive medium-term national statistical plan	End-September 2007	
Replace the Monrovia CPI with the Harmonized CPI	End-February 2007	Implemented by end-February 2007

INTERNATIONAL MONETARY FUND

LIBERIA

**Third Review of Performance Under the Staff-Monitored Program  
Informational Annex**

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

Approved by David Andrews and Matthew Fisher

June 28, 2007

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. Liberia has been in continuous arrears to the Fund since 1984. The Fund issued a declaration of noncooperation in 1990, and Liberia's voting rights were suspended in March 2003. Liberia's arrears to the Fund at end-April 2007 amounted to SDR 531 million (744 percent of quota). The authorities have been making monthly token payments of US\$60,000 to the Fund since November 2005, up from US\$50,000 since January 2004. On October 2, 2006, the Executive Board lifted the declaration of noncooperation, and initiated the process of de-escalating the remedial measures the Fund has been applying against Liberia.
- **Relations with the World Bank.** Describes World Bank Group program and portfolio.
- **Statistical Issues.** Assesses the quality of statistical data. Substantial weaknesses in Liberia's economic statistics hamper effective surveillance, largely because the civil war caused widespread destruction of databases and the loss of administrative and institutional capacity for statistics.
- **Security Issues.** The security situation in Monrovia remains relatively stable, with UN Mission in Liberia forces continuing to provide support to local security forces.

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

	Contents	Page
I.	Relations with the Fund .....	3
II.	Relations with the World Bank Group .....	7
III.	Statistical Issues .....	10

**Appendix I. Liberia—Relations with the Fund**  
(As of April 30, 2007)

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

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>% Quota</b>
Quota	71.3	100.0
Fund holdings of currency	271.4	380.7
Reserve position in Fund	0.0	0.0

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>% Allocation</b>
Net cumulative allocation	21.0	100.0
Holdings	0.0	0.0

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>% Quota</b>
Stand-By Arrangements	165.4	232.0
Contingency and Compensatory	34.7	48.7
Trust Fund	22.9	32.1

**V. Latest Financial Arrangements:**

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

**VI. Projected Obligations to the Fund<sup>8</sup>** (SDR million; based on existing use of resources and present holdings of SDRs):

	<u>Overdue</u>		<u>Forthcoming</u>			
	04/30/2007	2007	2007	2008	2009	2010
Principal	223.02					
Charges/interest	<u>307.79</u>	<u>9.85</u>	<u>13.14</u>	<u>13.12</u>	<u>13.13</u>	<u>13.13</u>
Total	530.81	0.06	13.14	13.12	13.13	13.13

<sup>8</sup> The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but that forthcoming obligations will be settled on time.



## VII. Safeguards Assessment

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

## VIII. Exchange Rate Arrangement

The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. The current exchange rate arrangement is a managed float, with no predetermined path for the exchange rate. The exchange rate of the Liberian dollar is market determined, and all foreign exchange dealers, including banks, are permitted to buy and sell currencies, including the U.S. dollar. Liberia's exchange rate at end-May 2007 was L\$62.5=US\$1.

## IX. Article IV Consultation

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

## X. Technical Assistance

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

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

Mission: assessment of TA needs	STA	Dec. 2003
Mission: balance of payments statistics	STA	May 2004
Mission: balance of payments statistics	STA	July 2004
Mission: government finance statistics	STA	July 2004
Mission: national accounts	STA	July 2004
Mission: monetary and financial statistics	STA	Aug. 2004
Mission: government finance statistics	STA	Jan. 2006
Mission: consumer price statistics	STA	May 2006
Mission: government finance statistics	STA	June 2006
Mission: monetary statistics	STA	Nov. 2006
Mission: balance of payments statistics	STA	Nov. 2006
 Mission: revenue code	 LEG	 Oct. 2006

#### **XI. Resident Representative**

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

## **Appendix II. Liberia—Relations with the World Bank Group** (As of May 6, 2007)

The World Bank suspended disbursements to Liberia in December 1986 as a result of mounting arrears, and Liberia's loans were placed in nonaccrual status in June 1987. To that date, disbursements had totaled US\$141.3 million from 22 IBRD loans and US\$91.5 million from 17 IDA credits; only US\$43.6 million owing on these disbursements has been repaid. By May 6, 2007, Liberia's arrears to the World Bank were US\$458.0 million (of which US\$47.4 million to IDA and US\$410.6 million to IBRD), reflecting further interest charges. Since June 20, 2006, Liberia has received two pre-arrears clearance IDA grants totaling US\$46.5 million to meet emergency infrastructure needs.

### **The Bank Group strategy and lending operations**

Following the Comprehensive Peace Agreement in August 2003 and the installation of the National Transitional Government of Liberia (NTGL) in October 2003, the Bank co-hosted with the UN and US the International Reconstruction Conference for Liberia in February 2004. In March 2004, the Executive Directors of the Bank discussed the Liberia Country Re-engagement Note. In April 2004 a US\$4.0 million grant from the Bank's newly created LICUS Implementation Trust Fund was approved to fund activities in four areas: community empowerment, including a rapid social assessment; public procurement and financial management; forestry sector management; and the coordination and implementation of the Results-Focused Transition Framework (RFTF). A further LICUS grant package of US\$6.9 million was approved in November 2007 extending support for public financial management reform (supporting the internationally agreed Governance and Economic Management Assistance Program -GEMAP), public sector reform, donor coordination, and a flexible fund to support demand-driven activities in a fast-changing environment. A US\$25 million grant from the Bank's IBRD surplus was approved by the Bank's Board of Governors in October 2004. This grant complements the LICUS program, funding additional activities in the area of infrastructure, natural resource management, public financial management, and distance learning.

The Bank prepared its first IDA operation for Liberia, the Liberia Emergency Infrastructure Pre-Arrears Clearance Grant of US\$30.0 million which was approved by the Bank's Board on June 20, 2006. This grant focused on the reconstruction of two primary roads, construction of 6 major bridges and the repair of an additional 65, restoration of a water treatment plant, and support for the reestablishment of power in Monrovia as well as on strengthening institutional capacity within the Ministry of Public Works to manage the above activities. This grant was supplemented by an additional IDA grant of US\$16.5 million in October 2006, scaling up roads activities and adding an urban works component to increase visible impact of the Bank's program.

In February 2007, the World Bank, IMF, US, EC, and AfDB co-hosted a Liberia Partners Forum, endorsing the Government's reform program as reflected in the recently-completed I-PRSP. Future Bank assistance to Liberia is based on the I-PRSP and is reflected in a new Interim Strategy Note (ISN) that will be discussed by the Bank's Board on June 14, 2007.

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

### **IMF-World Bank collaboration in specific areas**

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

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

The Bank is supporting the preparation of the Poverty Reduction Strategy, and in that context, will continue to provide support for strengthening the statistical capacity and assist the NSO (National Statistical Office) to undertaking key household surveys along the lines of the CWIQ (Core Welfare Indicators Questionnaire) to updating key social indicators to be monitored on annual basis. The Bank plans to assist the NSO in putting together a monitoring and evaluation system for the PRS.

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

The World Bank will consider undertaking PEFA (Public Expenditure and Financial Accountability) analysis to assist the national authorities strengthen their ability to (i) diagnose the condition of country public expenditure, procurement and financial accountability systems, and (ii) develop a practical sequence of reform and capacity-building actions, in a manner that encourages country ownership, reduces the transaction costs, enhance donor harmonization and better addresses developmental and fiduciary concerns leading to improved impact of reforms. The World Bank is also providing technical assistance to help develop a comprehensive civil service reform strategy

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

The IMF leads the dialogue on policies to contain various expenditures in the public sector. These include policies regarding the wage bill in the public sector and the definition of the ceiling for public investment expenditures. In these areas, the Bank takes into account the policy recommendations of the IMF and ensures that its own policy advice is consistent.

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

### Appendix III. Liberia—Statistical Issues

1. Substantial weaknesses in economic statistics hamper effective surveillance, largely because the civil war caused widespread destruction of databases and the loss of administrative and institutional capacity. Several STA missions have visited Monrovia in recent years (five in 2006) to assist the authorities in rebuilding capacity to compile statistics in the areas of national accounts, price, monetary, fiscal and balance of payments statistics.
2. The government passed legislation in July 2004 to create the Liberia Institute of Statistics and Geo-Information Services (LISGIS) as a semi-autonomous agency. This agency will have the lead in coordinating and reestablishing national economic and social statistics.
3. As one of twenty-two countries participating in the Fund's General Data Dissemination System (GDDS) Project for Anglophone African Countries (funded by the U.K. Department for International Development), Liberia has undertaken to use the GDDS as a framework to develop its national statistical system. Metadata and plans for improving the data over the short and medium term have been posted on the Fund's Dissemination Standards Bulletin Board (DSBB) since October 24, 2005.
4. The Central Bank of Liberia (CBL) regularly reports monetary, financial and exchange rate statistics for publication in *International Financial Statistics (IFS)*, but the timeliness of the reports needs to be improved. The CBL also publishes data on money and banking, prices, output, fiscal operations, debt, interest, exchange rates, and foreign trade on a bi-monthly basis with a lag of about six months in *Liberia Financial Statistics*. It also publishes the quarterly *Financial and Economic Bulletin*, covering the previous four quarters, with a lag of about six months.

#### Real sector

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

#### Prices

6. In January 2007, the authorities, in line with STA recommendations, formally adopted the Harmonized Consumer Price Index (HCPI). The HCPI is based on an expanded basket of goods and services consistent with the ECOWAS harmonized market basket, and updated weights (using consumption patterns in neighboring countries in the absence of an updated household survey). The authorities have compiled data for this index since October 2005. Prior to January 2007, price data were based on the Monrovia Consumer Price

Index (MCPI) which contained a basket of only 79 items, which were weighted according to a household income and expenditure survey from 1964.

### **Government finance statistics**

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

### **Monetary statistics**

8. The CBL has made progress in compiling monetary aggregates according to international standards. However, further steps are needed to strengthen the CBL's accounting system, including proper accounting of foreign reserves, segregating required reserves by currency denomination, and adequate classification of other assets and liabilities. In addition, while the reporting of preliminary statistics by commercial banks has improved, the response by banks to requests for explanations and follow-up to inconsistencies continues to be weak. An STA mission in November 2006 finalized the standardized report form (SRF) for the CBL, recommended further improvements in source data of the other depository corporations, and initiated the development of an integrated monetary database to meet the data needs of the CBL, STA, and AFR, including for monitoring the PRGF-supported program.

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

9. Official balance of payments statistics are not reported comprehensively. However, the Fund staff has prepared provisional balance of payments statistics in cooperation with the CBL, the Ministry of Commerce (MoC), MPEA, and the MoF. The CBL is responsible for compiling the balance of payments in coordination with other agencies. Some progress has been made in compiling certain current and financial account components—mainly on trade and related services, government expenditures, remittances, and on nonresident deposits in the financial account—but lack of primary source data and errors in distinguishing between components in services, income and transfers underscore the need for technical assistance. An effort should be made to resolve and reconcile the significant discrepancies in trade data reported by the various agencies. The CBL has completed a census of foreign direct investment enterprises in preparation for an investment survey following the recommendations by the STA mission of July 2004. In November 2006 an STA mission set out recommendations to strengthen compilation of balance of payments statistics in the CBL including training of staff. In March 2007, STA approved a long-term advisor to assist the



CBL in improving balance of payments data. An official from the CBL is currently attending the IMF's balance of payments statistics course in Washington in May/June 2007.

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

**Liberia—Table of Common Indicators Required for Surveillance**  
As of December 31, 2006

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

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

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

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

<sup>4</sup> Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA)

**Statement by the IMF Staff Representative**  
**July 13, 2007**

1. The information below has become available since the issuance of the staff report. The new information does not alter the thrust of the staff appraisal and, in the staff's assessment, the policies under the 2007 SMP continue to meet the standard on an upper credit tranche Fund arrangement, except for program financing.

2. **Recent economic developments.** Preliminary data indicate that total government revenue in fiscal year 2006/07 (July-June) was US\$148.3 million, an increase of 75 percent compared with fiscal year 2005/06 and 23 percent more than projected in the program. While precise numbers are not yet available, indications are that government spending picked-up in the last months of the fiscal year. Supported by higher U.S. dollar government spending and increased sales of foreign exchange in the CBL's weekly auctions, the Liberian dollar appreciated to L\$60.5/US\$1 on July 9 from L\$62.5/US\$1 at end-May. The depreciation of the Liberia dollar therefore slowed to 4.8 percent in the twelve months to end-June 2007 from 7.2 percent in May. Year-on-year inflation rose to 12.4 percent in June from 10.1 percent in May, mostly on account of higher food prices; excluding food, the rate of increase in consumer prices slowed further to 3.9 percent in June from 4.9 percent in May.<sup>1</sup>

3. **Political developments.** Liberia's recently appointed Auditor General submitted a critical assessment of the 2007/08 budget to the legislature, asserting that the budget contained insufficient information for a proper legislative consideration. While the government provided additional information to the legislature, the budget has not yet been approved for the fiscal year that started on July 1. The legislature also defeated a motion for a 1/12<sup>th</sup> continuing resolution, arguing that this could further delay passage of the budget. As a result the cash management committee at the Ministry of Finance is currently not able to approve any expenditures. The Minister of Finance has indicated that she expects the budget to be approved by the end of July.

---

<sup>1</sup> Inflation data under Harmonized CPI, adopted at end-January 2007, have been revised following additional STA TA. The mission that concluded on June 29, 2007 assisted the authorities in correcting problems with calculation methodology, which resulted in a revision of inflation data reported under the HCPI from January 2007.



Press Release No. 07/160  
FOR IMMEDIATE RELEASE  
July 13, 2007

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Discusses Liberia's Progress Under the Staff-Monitored Program**

The Executive Board of the International Monetary Fund (IMF) met today to discuss the third review of performance under Liberia's Staff Monitored Program (SMP)<sup>1</sup>. Liberia has been implementing an SMP since February 2006.

Following the Board meeting, John Lipsky, First Deputy Managing Director and Acting Chairman, made the following statement:

“The Executive Board of the IMF was informed today of progress in implementing policies under the staff-monitored program (SMP) for 2007. Despite difficult circumstances, the government has established an encouraging track record of policy implementation under their 2007 SMP, which meets the standards associated with arrangements in the upper credit tranches. Achievements under the SMP have supported a continued recovery in real GDP growth, relative price and exchange rate stability, and a significant improvement in public financial management and the financial position of the Central Bank of Liberia (CBL).

“Revenue collection in 2006/07 substantially exceeded the budget target. The government also strictly implemented the interim commitment control system. It will be important to resist any pressures to relax the interim commitment control system since this is an integral part of the government’s strategy to prevent the reemergence of domestic payments arrears. It is also important for the government to work closely with the legislature to ensure passage of the 2007/08 budget as soon as possible.

“Raising civil service salaries and wages is an important step. It is, however important to develop a comprehensive civil service reform strategy to ensure that future salary increases are sustainable and consistent with the efficient delivery of public services.

“It is also important to begin implementation of the government’s recently adopted anticorruption strategy that provides for establishing an independent anticorruption commission. Draft legislation for the commission’s establishment should be submitted to the

---

<sup>1</sup> A staff monitored program (SMP) is an informal agreement between national authorities and Fund staff to monitor the implementation of the authorities' economic program.

legislature, and the government seek early involvement of development partners in finalizing an operational plan for the commission.

“Liberia’s external debt is unsustainable, and it is urgent to make progress in moving Liberia onto the path toward debt relief. This underscores the importance of mobilizing the necessary financing for arrears clearance and debt relief for Liberia. It is important that the IMF be in a position to assist Liberia to normalize its relations with the international community as soon as possible. Fund management has proposed a financing package that provides a reasonable basis for mobilizing the necessary financing and looks forward to specific commitments from a wide group of bilateral contributors to ensure that sufficient resources will be in place expeditiously,” Mr. Lipsky said.

**Statement by Peter Gakunu, Executive Director for Liberia  
and Ita Mannathoko, Advisor to Executive Director  
July 13, 2007**

*The Liberian Authorities deserve credit for the extraordinary commitment and the determination they have shown in pursuing a very ambitious reform program under especially trying circumstances. They have established a strong track record, continuing to meet program targets in the face of meager fiscal resources, significant capacity constraints, low incentives as reflected in civil service wages that are substantially below the global poverty line of \$2 a day, an opposition-controlled parliament, and pressures from an impatient post-war society with high expectations. Despite these difficulties, the Authorities remain strongly committed to sustained reform. The new Liberian government therefore, deserves all the help the international community can give.*

*The Authorities are not through the woods yet. Liberia's already unsustainable debt continues to expand as it accumulates interest, and this will continue as long as arrears clearance is delayed. This is a critical juncture in the arrears clearance process and in sustaining the current program. Therefore, sufficient arrears clearance commitments are urgently needed. The Authorities will need unremitting financial and technical support from the donor community to be able to pull through.*

### **Recent Economic Developments**

1. The Liberian Authorities have maintained a strong track record, characterized by sustained macroeconomic stability and strong growth. In 2006, real GDP growth is estimated to have risen further to 8 percent from 5.5 percent in 2005. With respect to monetary policy, while the authorities have for the most part maintained broad nominal exchange rate stability, there has been some flexibility as reflected in the 7 percent depreciation against the dollar recorded for the year ending May 2007. Meanwhile, a new, more comprehensive and representative CPI basket has been adopted since the last SMP review. This new data shows a declining inflation trend for the country-wide basket. Inflation dropped to 11 percent in May 2007 from 12 percent in January under the new CPI.

### **Performance Under the Staff Monitored Program**

2. In spite of the sizable pressure from the challenges the Authorities face, Liberia's performance under the SMP has remained broadly satisfactory. Since the last SMP review in February, public revenues have continued to exceed program targets and these targets are now being adjusted upwards in the current SMP. With respect to the slow pace of fiscal expenditure reported in the last review, this is being corrected. In order to address capacity constraints in public financial management, the authorities established an ongoing capacity building program in public procurement and the time spent in training had the effect of delaying spending under the budget. In the last quarter of the fiscal year, however, spending has accelerated and the target for the

current fiscal year will now be met. Given this track record, the Authorities are requesting the IMF Board to continue giving their strong endorsement to Liberia's performance record under this 2007 SMP, which meets upper credit tranche conditionality requirements, as endorsed by the Board in February.

### **Fiscal Policy**

3. Measures are ongoing to strengthen the government's general public financial management. The Authorities note the importance of ensuring timely approval of the budget to clarify the resource envelope for line ministries and now expect the 2007/08 budget to be passed by parliament within the next month. Other measures that are underway include an aggressive domestic debt resolution program to address outstanding domestic debt issues such as repayments owed to financial institutions, and cross-debts with state owned enterprises. In this regard, a trust fund has been established to finance the debt resolution strategy and government has allocated \$6 million in initial funds to it under the current budget. Over the next three years, 5 percent of the annual budget will be allocated to this trust fund to cover debt resolution payments for the fiscal year. Some progress is also being made with the anti-corruption strategy. The Authorities met with various donors to determine how best to finance the anti-corruption commission and ensure it has adequate capacity to be able to effectively implement the anticorruption strategy. A financial plan for the commission's operation is being drafted and the Authorities have now budgeted money for the commission, which will be supplemented by donor funds. On the issue of the reform of tax exemption policies, the Authorities have drafted an amendment to the legislation which is currently being reviewed by an IMF legal expert.

### **Financial Sector Reform**

4. The Authorities are also cognizant of the importance of addressing financial sector shortcomings and in this regard, measures are already underway to address financial sector weaknesses identified by IMF staff missions. Work is also ongoing to strengthen the Central Bank function. In order to upgrade its own systems, the Central Bank of Liberia asked the Fund to undertake a voluntary safeguards assessment of its current systems to help identify vulnerable areas. This assessment has recently been completed and the Authorities are now using it to guide their system's capacity strengthening measures.
5. Generally, the state of the banking sector has improved noticeably. All banks now meet the minimum capital requirement. The Central Bank of Liberia has also intensified on-site examinations and enhanced enforcement has led to improved corporate governance in the banking system. Recent data in 2007 show that the gross assets of the banking sector have risen by 24 percent over the level recorded for December 2006, and by 46 percent when compared to March 2006. Meanwhile, the ratio of non performing loans to total loans and advances of the banks, has declined by 19.9 percentage points since March 2006. At the same time, aggregate deposits of the banks increased by 22 percent over the level recorded for December 2006 and by 50 percent compared to March 2006, reflecting increased confidence in the banking system. Notwithstanding this progress, further steps are being taken to strengthen the supervisory

functions of the Central Bank. Furthermore, options are being considered for improving Liberia's legal system with regard to the enforcement of financial contracts and/or collection debts.

6. The SMP benchmark regarding the audit selection criteria for the Central Bank of Liberia has now been resolved and the Central Bank of Liberia audit is near finalization by the external auditors. The Liberian Authorities are committed to ensuring that the Central Bank of Liberia's Chief Administrator plays an effective role in the context of the GEMAP.
7. The Central Bank of Liberia is also working closely with the Ministry of Finance to conclude discussions for the liquidation of government debt to the banking system under the new domestic debt strategy. The Authorities thank the IMF for its assistance in providing a long term expert, a measure which has helped the Central Bank of Liberia to improve its supervisory capacity.

### **Public Financial Management Reform**

8. Regarding civil service capacity and the wage level, the Authorities continue to face the dilemma of how to build a civil service of the required quality and quantity, in order to help develop the productive and efficient civil service capacity that is needed, given the significant budgetary constraints. The current civil service wage is so low that it provides little incentive to qualified and competent candidates to join the service. Despite recent salary increases, the minimum civil service wage of \$50 a month remains below the global poverty line of \$2 a day. Thus, enhanced donor support is necessary within the context of a comprehensive civil service reform strategy that will address this concern as well as other capacity issues such as the training needed for budget planning and implementation in line ministries.

### **The Imperative of Clearing Liberia's Protracted Arrears**

9. Liberia is a post-conflict country and still bears the scars of decades of war. There is widespread poverty with most of the population living below the global absolute poverty line of \$1 a day. Unemployment remains high, at over 80 percent of the labor force, and many of the unemployed are ex-combatants and restive youth. This points to the potential for social pressures if the peace dividend is not seen in a timely manner by the broader population. The government's revenue base clearly falls far short of the enormous post-conflict reconstruction needs. The Authorities are therefore grateful to donors present in Liberia, who are providing critical project support outside of the budget. Within the available cash budget, there has been a rapid increase in expenditure on key social and rural services such as education, health, agriculture, public works, water and sanitation, in line with rising revenues. In the current fiscal year, expenditure on these social services has been increased by 39 percent.
10. We are grateful to those countries that have agreed to contribute their SCA-1 accounts and deferred charges to Liberia's arrears clearance package. We are especially grateful to Sierra Leone and the Democratic Republic of Congo, which have contributed despite the daunting challenges they face. Notwithstanding these contributions, a significant funding gap still remains. The preliminary HIPC debt sustainability analysis shows that Liberia would be eligible to use HIPC and MDRI related debt relief to help bring its overall debt down to manageable and



sustainable levels. However, this will only happen once adequate financing assurances have been obtained to enable Liberia to clear its arrears. Thus both the IMF and the international community still have a critical role to play in supporting the Authorities' sustained effort to bring the country's finances to relative normalcy under a sustainable trajectory. Under the current government, Liberia has consistently conformed to IMF requirements with respect to policy recommendations, reforms and payments. There is therefore, an urgent need for the IMF Executive Directors and the G8 to expedite the process of securing the balance of financial assurances needed for arrears clearance. In this regard, we appeal to all Executive Directors to encourage their Authorities to expeditiously participate in the arrears clearance package needed to re-establish Liberia on a sustainable footing. We are also hopeful that the G8 and management will approach the larger SCA-1 account holders to appeal for their participation.

11. The Authorities have been working on the resolution of Liberia's commercial debt. With the help of grants from the Swiss government, they have retained the services of financial and legal advisers who are assisting in the restructuring of Liberia's commercial debt within the parameters set out in the HIPC framework. Several meetings have already been held with various creditors, including hedge funds.

## **Conclusion**

12. In closing, a strong message is sought from the Executive Board to the effect that Liberia is effectively implementing this Fund program, with policies meeting the Upper Credit Tranche (UCT) conditionality level, it is establishing a credible track record, and that the Fund is ready, as soon as adequate arrears clearance assurances have been made, to make quick progress towards the HIPC and MDRI debt relief required to bring Liberia's debt to normalcy at sustainable and manageable levels. This will then allow for the economic progress needed to sustain peaceful reform in Liberia. The importance of continued financing support from the development community, for Liberia cannot be over-emphasized. This is a critical juncture for the country. Finally, we thank the Executive Board, Management and Staff for the gigantic effort being made to help clear Liberia's arrears and place the country on a sustainable footing.