REPUBLIC OF LIBERIA

MINISTRY OF FINANCE

DEBT MANAGEMENT UNIT (DMU)

SECOND QUARTER 2010/2011

PUBLIC DEBT MANAGEMENT REPORT

October1, 2010 to December 31, 2010

CONTENT

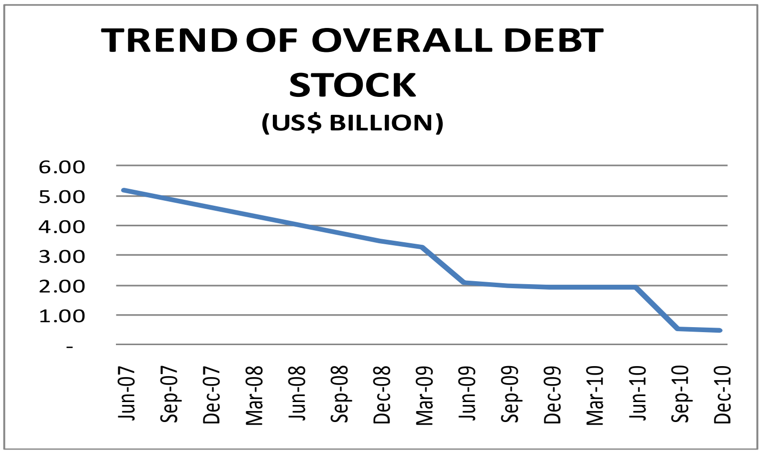
INTRODUCTION

This is the second quarter 2010/2011 ***DEBT MANAGEMENT REPORT***. It provides a comprehensive report on the progress the Government is making towards rationalizing and reducing Liberia's debt. It also provides information on the composition and changes in the debt during the quarter. Charts and Reference tables containing statistics on debt management operations are provided in this report.

The purpose of this publication is to ensure transparency and accountability in Government debt management. Information on the debt management strategy and guidelines for government guarantees are in separate reports, *GOL Debt Management Strategy for Fiscal Year 2010/2011 and the draft Guidelines for Issuing Government Guarantees.* These reports provide detailed accounts of the Government's borrowing policy in a post-HIPC environment.

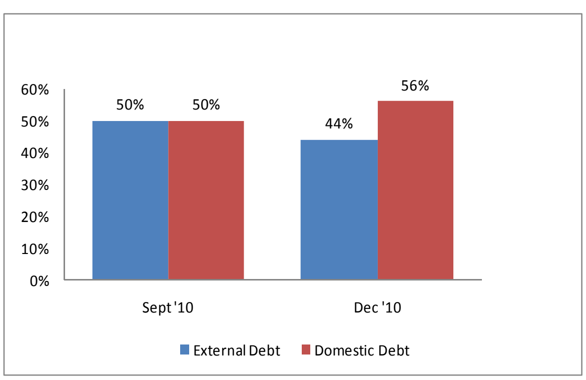
EXTERNAL AND DOMESTIC DEBT PROFILES

Total public and publically guaranteed debt stock, comprising both external and domestic debt, decreased from USD 564.70 million in September 2010 to USD



503.70 million as at end-December 2010, representing a decline of USD 61.0 million or 11 percent. Following debt relief obtained under the Enhanced HIPC Initiative, external debt continued to decline during the period under review as new debt relief agreements were finalized. As a result of the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI), debt relief has been provided by Multilateral Institutions, including the International Monetary Fund (IMF), International Development Association (IDA) and the African Development Bank (AfDB), while Paris Club (PC) bilateral creditors provided 100 percent cancellation of the outstanding debt stock as at end June 2010. The European Investment bank (EIB) and the International Fund for Agricultural Development (IFAD) have provided their share of Enhanced HIPC relief. The GoL is seeking comparable debt relief terms with smaller multilateral creditors including BADEA, ECOWAS Fund, and OFID and Non-Paris Club creditors including China, Kuwait, Saudi Arabia, and Taiwan.

The composition of total public and publically guaranteed debt has changed significantly with the share of domestic debt increasing from 50% of total debt at



the end of September 2010 to 56% at the end of December 2010. Over the same period the share of external debt in total debt fell from 50% to 44%. The shift in the composition of debt is attributed to external debt forgiveness by multilateral and bilateral agencies, the completion of the buy-back of the external commercial debt of the two remaining commercial creditors with support of the World Bank and the lack of new external borrowing during the reporting period.

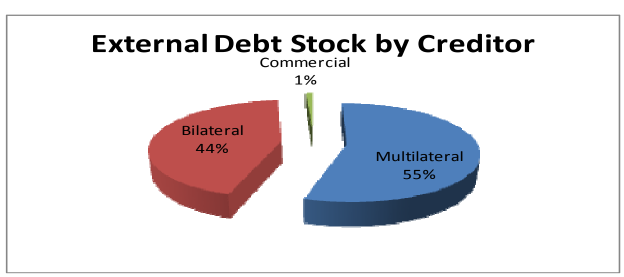
TABLE 1: SUMMARY OF LIBERIA'S OVERALL DEBT POSITION

CREDITOR CATEGORY	AS AT DECEMBER 31, 2010 (IN US$)									
EXTERNAL DEBT	**Jun-07**	**Dec-08**	**Mar-09**	**Jun-09**	**Sep-09**	**Dec-09**	**Mar-10**	**Jun-10**	**Sep-10**	**Dec-10**
MULTILATERAL	1,619.2	1,052.1	1,024.5	1,070.7	1,085.6	1,072.5	1,062.3	1,006.8	138.8	99.0
IMF	809.2	858.0	832.8	875.5	893.8	884.4	879.2	826.5	38.4	37.5
World Bank	442.6	70.2	70.2	70.2	69.8	66.9	65.2	63.8	-	-
AfDB Group	271.3	28.4	27.6	28.6	27.5	27.4	25.2	27.3	7.7	7.7
BADEA	19.1	19.7	19.8	19.9	20.5	20.5	20.5	20.5	20.5	20.5
OFID	25.2	25.2	25.2	25.2	25.2	25.2	25.2	25.2	25.2	25.2
IFAD	25.1	26.2	25.4	26.6	25.1	24.8	24.7	23.2	24.7	3.1
ECOWAS	5.0	5.0	5.0	5.0	5.2	5.2	5.1	4.8	5.1	3.0
EIB/EU	21.7	19.4	18.5	19.7	18.5	18.1	17.2	15.5	17.2	2.0
BILATERAL	1,587.3	877.5	714.9	690.9	575.9	570.7	554.5	525.8	123.2	123.4
Paris Club	1,457.5	758.0	596.0	571.8	453.8	448.6	431.3	403.9	-	-
Non-Paris Club	129.8	119.5	118.9	119.1	122.1	122.1	123.2	121.9	123.2	123.4
COMMERCIAL	1,685.8	1,233.8	1,234.8	20.5	20.5	20.5	20.5	20.5	20.5	0.5
Financial Institutions	1,340.8	1,148.0	1,149.0	20.5	20.5	20.5	20.5	20.5	20.5	-
Suppliers' Credit	345.0	85.8	85.8	-	-	-	-	-	-	0.5
TOTAL EXTERNAL DEBT	**4,892.30**	**3,163.40**	**2,974.20**	**1,782.10**	**1,682.00**	**1,663.70**	**1,637.30**	**1,553.10**	**282.50**	**222.90**
DOMESTIC DEBT										
Suppliers' Credit	2.20	7.90	7.90	7.00	7.00	6.60	6.40	6.40	5.60	5.60
Salaries & Allowances	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.90	3.90
Pre-NTGL Salaries	24.10	12.50	12.50	10.90	10.90	10.30	10.30	10.30	3.10	2.20
FINANCIAL INSTITUTIONS	277.00	276.60	276.10	275.70	275.40	271.50	271.40	271.30	269.40	269.10
CBL	267.50	267.50	267.50	267.50	267.50	263.90	263.90	263.90	262.00	262.00
Ecobank	1.3	1.2	1.1	1.0	0.9	0.8	0.8	0.7	0.6	0.6
LBDI	8.2	7.9	7.5	7.2	7.0	6.8	6.7	6.7	6.8	6.5
Others	0.80	0.60	0.60	0.60	0.50	0.30	0.30	0.30	0.30	0.20
TOTAL DOMESTIC DEBT	**307.90**	**301.40**	**300.90**	**298.00**	**297.60**	**292.50**	**292.20**	**292.10**	**282.30**	**281.00**
TOTAL DEBT	**5,200.20**	**3,464.80**	**3,275.10**	**2,080.10**	**1,979.60**	**1,956.20**	**1,929.50**	**1,845.20**	**564.80**	**503.90**
Source: DMU, MoF										

TOTAL DEBT SERVICE

Liberia's overall debt service increased slightly by US$ 0.09 million (approximately 3.4 percent) from US$ 2.64 million during the last quarter to US$ 2.73 million during the quarter under review.

EXTERNAL DEBT PROFILE



As at end December 2010, total external debt stock stood at USD 222.8 million, representing a decrease of USD 57.7

million, or 21 percent compared with the stock recorded at end September 2010. This decrease is explained primarily by debt relief provided by IFAD and EIB/EU.

Bilateral debt accounts for the largest share of Liberia's external debt portfolio at approximately 55 percent of total external debt at the end of December 2010, an increase from 44 percent at the end of September 2010, surpassing multilateral debt, which decreased to 44 percent of total external debt at end December 2010 from 49 percent at end September 2010. Similarly, commercial credits accounted for approximately 1 percent at the end of December 2010 representing a decrease from 7 percent at the end of September 2010. The decrease in commercial debt is due to the completion of the second buy-back of the commercial debt from the two remaining commercial creditors with the support of the World Bank Debt Reduction Facility (DRF). The remaining 1 percent outstanding on the Commercial debt represents obligation to a foreign supplier creditor, which was previously reported as domestic debt, but now reported as external debt based on a residency criterion.

The stock of PPG external debt is expected to be further reduced following negotiations with the remaining multilateral creditors and non-Paris Club bilateral creditors.

EXTERNAL DEBT BY CURRENCY COMPOSITION

The currency composition of Liberia's external debt weighs in favor of the USD, with the share of USD increasing from 47 percent in September 2010 to 59 percent in December 2010. The SDR constitutes the second largest currency, accounting for 20 percent in December 2010, a decrease from 24 percent in September 2010. Other currencies, including the Euro, the Chinese Yuan, the Kuwaiti Dinar, and the Saudi Arabian Riyadh accounted for a combined total of 29 percent in September 2010, and fell to 21 percent in December 2010, as shown in the Table below:

TABLE 2: CURRENCY COMPOSITION OF EXTERNAL DEBT (%)

CURRENCY COMPOSITION			
Currency		**Sept '10**	**Dec '10**
USD		47	59
SDR		24	20
Others		29	21
Total		**100.00**	**100.00**

EXTERNAL DEBT SERVICE

Liberia's total external debt service decreased by US$ 0.17 million, about 18 percent, from US$ 0.96 million in September 2010 to US$ 0.79 million this quarter. When expressed as a ratio of projected Government revenue of US $73.2million this quarter, debt service for the period under review accounted for approximately 1.1 percent, as against 3.12 percent during the last quarter ending September 2010.

Table 3: External Debt Service **Sept. 2010 – Dec. 2010 (IN USD MILLIONS)**

In Million US $			
Creditor Category		**Sept '10**	**Dec '10**
Multilateral		0.96	0.09
Paris Club Bilateral		-	-
Non Paris Bilateral		-	-
Commercial		-	0.70
Total		**0.96**	**0.79**

EXTERNAL DEBT RELIEF INITIATIVE

In June 2010 Liberia reached completion point under the Heavily Indebted Poor Countries' Initiative (HIPC II). After reaching the HIPC completion point, Liberia has benefitted from further nominal debt reduction from the World Bank (IDA) and the African Development Bank under the Multilateral Debt Relief Initiative (MDRI) and beyond-HIPC assistance from the IMF. The EU has also provided additional relief under its Special Debt Relief Initiative.

BILATERAL DEBT RELIEF

On September 16, 2010, Liberia reached agreement with the Paris Club creditors for a 100 percent cancellation of the remaining debt. As of the end of the reporting period, bilateral agreement for a 100 cancellation of the remaining USA debt was signed. Outright (or 100 percent) cancellation agreements with Denmark, Italy, and Finland were signed prior to the HIPC point. Cancellation agreements with the remaining nine Paris Club creditors will be signed not later than the next quarter (January-March 2011).

The Government is continuing negotiations with non-Paris Club creditors for debt relief comparable with that provided by the Paris Club.

COMMERCIAL DEBT RELIEF

In October 2010 the Government, with support from the World Bank Debt Reduction Facility (DRF), concluded a second commercial buy-back operation. Commercial claims estimated at US$ 20.5 million in nominal values were liquidated. With the exception of debt to Nick-TC Scan, a supplier creditor based in Ghana, all other external commercial debt has been settled. During previous reporting periods, debt to Nick-TC Scan was recorded as domestic debt, but is now recorded as external debt based on residency requirement.

MULTILATERAL DEBT RELIEF

After reaching the HIPC completion point, Liberia has also benefitted from further nominal debt reduction from the World Bank (IDA) totaling US$ 70 million and the African Development Bank, totaling US$ 17 million under the Multilateral Debt Relief Initiative (MDRI) and beyond-HIPC assistance from the IMF, totaling SDR 117.4 million (US$ 173 million). The EU has also provided additional relief under its Special Debt Relief Initiative, totaling US$ 0.9 million.

Negotiations are underway with smaller multilateral creditors for the signing of debt relief agreements with terms in compliance with the September 16, 2010 Paris Club Agreed Minutes.

DOMESTIC DEBT PROFILE

Total domestic debt stock stood at US$ 280.9 million as at end December 2010, representing a slight decrease of US$ 1.3 million or 0.46 percent, compared to US$ 282.2 million recorded at end September2010. The fall in domestic debt during the period was due to debt service payments.

TABLE 4: COMPOSITION OF DOMESTIC DEBT (USD MILLION)

In Million US $			
Instrument Type		**Sept '10**	**Dec '10**
Suppliers' Credit		5.60	5.60
Salaries and Allowances		3.90	3.90
Financial Institutions		269.30	269.00
Pre-NTGL Salaries		3.10	2.20
Others		0.30	0.20
Total		**282.20**	**280.90**

DOMESTIC DEBT SERVICE

Total domestic debt service of both principal and interest amounted to US$ 1.94 million during the reporting quarter, compared to US$ 1.68 million during the quarter ending September 2010. Principal repayment amounted to US$ 1.04 million or 46 percent of the total debt service, while interest payments amounted to US$ 0.89 million or 54 percent as at December 2010. Of the total debt service during this quarter, payment of Pre-NTGL Salary Arrears accounted for US$ 0.89 million, or 46 percent, payment to the CBL accounted for US$ 0.85 million, or 44 percent, while the remaining 10 percent constitutes payment to LBDI.

DOMESTIC DEBT RELIEF INITIATIVE

The Government of Liberia inherited from previous administrations a total of approximately US$ 968 million of domestic debt owed to domestic financial institutions, commercial suppliers of goods and services and civil servants. The Governmentmade a decision to settle these obligations with in order to enable domestic business to rebuild thereby stimulating economic activities.KPMG Ghana, an independent auditing firm based in Accra, Ghana, was hired to vet all domestic claims in order to ensure their validity in the face of the complexity of the situation.

At the heart of the domestic debt relief initiative of government is the domestic debt resolution strategy which calls for the vetting, aggregation and discounting of all domestic claims (except that of the CBL) before payment is made. The GoL is fully committed to resolving all valid claims as demonstrated by the payment of various categories of domestic debt and arrears since 2006, and the signing of restructured agreements with the CBL, LBDI, and Ecobank. During the quarter under review, an MOU was signed between authorities of Government and Ex-Soldiers of the Armed Forces of Liberia (AFL) for the resolution of arrears due them. It was agreed that the outstanding months owed to the former AFL is three months for officers and two months for enlisted men.

THE T-BILL MARKET

A delegation from the Ministry of Finance visited the Ministry of Finance and Economic Planning of Ghana to study its T-bill operations from a fiscal authority perspective. Knowledge obtained from Ghana will be used to customize the Ministry of Finance operations. The Central Bank of Liberia has already put in place the necessary framework for the launch of the Treasury Bills (T-bills) market.

GOVERNMENT GUARANTEE LOANS

For this reporting period, the Liberia Petroleum Refinery Corporation requested a Government's guarantee for a US$ 12million facility intended to rehabilitate and expand its Product Storage Terminals. In connection with this request, the DMC requested several documents, as required by the guidelines for the issuance of government guarantees, from LPRC to enable the it make an informed decision. Up to the time of reporting, the DMC has not received a reply from LPRC. A state-owned-enterprise requires prior approval from the DMC to contract new borrowing. The PFM Law (2009) and the draft Guidelines of Issuance of Government Guarantee guide the process of the issuance of Government guarantee to SOEs.

In the draft Guidelines for issuing Government Guarantee, the government recognizes that an important requirement of an effective guarantee policy is a thorough assessment of projects and programs for which guarantees are requested followed by the rejection of all those that are determined to be non-feasible. The DMC will undertake this prior to issuance and at regular intervals thereafter. The main purpose of such assessment is to evaluate the prospects of the SOE generating adequate income to repay the loan.

GOVERNMENT OF LIBERIA POLICY ON BORROWING

HIPC Completion Point brings significant changes in macroeconomic policy, as the Government once again is able to borrow to invest in projects that will help to deliver the Government's objective of rapid, sustainable and inclusive growth and development. New borrowing will be carefully managed in order to maintain a sustainable debt profile while responding to the country's urgent development financing needs. As with all of the Government's financial activities, new borrowing will be carried out in accordance with the Public Financial Management Law of 2009 (PFM Law) and regulations.

To support the overall fiscal policy objective, the Government's debt management policy objective is to maintain a sustainable debt profile while responding to the country's urgent development financing needs.

Specific Policies set out in the Debt Management Strategy

- Strict rules and oversight functions have been established to ensure prudent borrowing. A Debt Management Committee (DMC) was created in accordance with the PFM law. It is responsible for approving all loans and guarantees contracted by government entities.
- The Government's overall borrowing strategy for 2010/11 is guided by a ceiling on central government borrowing. Both domestic and external central government borrowing is limited to 3 percent of previous year GDP in present value terms (US$ 40-46 million in FY11); that is, a maximum of 1 per cent of

GDP to be raised from domestic sources and 2 per cent from external sources.

- The stock of outstanding public and publically guarantee debt; that is both direct government debt and state-owned enterprise (SOE) debt, will be limited to 60 per cent of GDP, as stipulated in the PFM Regulations.
- On external borrowing, the DMC operates a hierarchy of preferences over the types of funding:
    1. Grant finance will be the first preference; it has a zero debt service costs.
    2. Highly concessional lending with at least 50 per cent grant element, extended grace periods and interest rate well below market rate will be sought
    3. The next position in the hierarchy will be lending with 35 per cent grant element, the threshold set by the IMF as the minimum grant element considered 'concessional'
    4. In exceptional cases, where concessional financing is unavailable and the project to be financed is considered to have a sufficiently high economic return to justify the additional debt service costs, the Government will consider loans with less-than-concessional terms or even commercial lending

  This hierarchy allows the DMC to achieve the right balance between the benefit of delaying a project to secure financing on more concessional terms with the cost of delaying the economic returns expected to accrue after the project has been completed.
- On domestic borrowing, the Government and the Central Bank of Liberia (CBL) have put in place modalities to launch a domestic government securities market. Currently, this market is confined to the issuance of Treasury bills. The T-bill market will be used to facilitate cash management, which will allow the Ministry of Finance (MOF) to smooth expenditure through the year in the face of monthly fluctuations in revenue.
- The DMC will also consider the use of bridge financing from the CBL under certain strict conditions to accelerate the implementation of investment

projects linked to external grant or loan financing. The use of CBL bridge financing will be limited to a maximum of $20 million at any point in time.

- All borrowing by state-own-enterprises (SOEs) will be approved by the Minister of Finance and the DMC. SOE debt is not subject to the annual borrowing limit of 3 per cent of GDP but is subject to the 60 per cent of GDP debt stock limit. All borrowing, including all SOE borrowing, will be subject to a case-by-case rigorous level of appraisal for economic rate of return, approved by the DMC.

SUMMARY

This report reviews the public debt situation in Liberia in the second quarter of the fiscal year 2010-11 covering the period October-December 2010.

A brief description of changes in the public debt situation is given. Debt decreased by US$ 61 million due to further relief by multilateral institutions and the commercial debt buyback. These actions also led to a shift in the composition of Liberian debt, which is now 56% Domestic Debt and 44% External Debt (as opposed to 50-50 previously). Total debt service has increased slightly and the decrease in debt is mostly accounted for by a significant decrease in external debt of US$ 57.7 million. The primary source of this debt relief was debt forgiveness by EFAD and the EIB/EU. Domestic Debt decreased by US$ 1.3 million this quarter..

Progress with bilateral creditors is described: Negotiations with non-Paris Club bilateral creditors are ongoing in order to achieve Paris Club comparable debt relief, and efforts are being made to ensure the signing of all the Paris Club debt cancellation agreements. The U.S. signed their agreement at the end of this quarter.

The achievement of the second commercial debt buyback, which also contributed significantly to this quarter’s 11% decrease in debt, is detailed. Claims worth US$ 20.5 million were liquidated as a result of this.

Finally, with HIPC completion point achieved, new procedures for borrowing procedures and for issuing guidelines for government guarantees have been

developed to ensure transparent, accountable and efficient debt management by the Government of Liberia. These are also considered in detail herein.