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Liberia: 2010 Article IV Consultation and Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Liberia.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2010 Article IV Consultation with Liberia and fifth review under the three-year arrangement under the extended credit facility, the following documents have been released and are included in this package:

- The staff report for the combined 2010 Article IV Consultation and Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended on October 1, 2010, 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 November 22, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) and Press Release summarizing the views of the Executive Board as expressed during its December 8, 2010 discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- A statement by the Executive Director for Liberia.

The documents listed below have been separately released.

Letter of Intent sent to the IMF by the authorities of Liberia
Memorandum of Economic and Financial Policies by the authorities of Sierra Leone
Technical Memorandum of Understanding

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

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LIBERIA

Staff Report for the 2010 Article IV Consultation and Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility

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

Approved by Doris C. Ross and Jan Kees Martijn

November 22, 2010

Overview: Strong macroeconomic policies, strengthened institutions, and debt relief have stabilized the economy and supported confidence building. Many vulnerabilities remain. While medium-term prospects are bright, notably in commodity export sectors, broad-based growth is necessary to reduce high levels of under-employment and widespread poverty. To this end, future commodity revenues will need to be channeled to infrastructure financing and capacity building to enhance competitiveness. Financial sector development would help support the private sector. Further reforms are necessary to remove structural impediments to growth, notably of property rights and land tenure.

The 2010 Article IV discussions and fifth review of the ECF-supported program took place in Monrovia September 21–October 1. The mission comprised of Mr. Lane (head), Messrs. Oestreicher, Sobolev, and Yoon (all AFR), and Mr. Cipollone (SPR). Mr. Graham (World Bank) joined the concluding discussions.

The mission met with Finance Minister Ngafuan, Central Bank Executive Governor Jones, senior government officials and legislators, private sector and civil society representatives, and development partners. The mission briefed President Johnson Sirleaf on its main findings.

Liberia's exchange system is free of restrictions on payments and transfers for current international transactions. The authorities have not yet accepted the obligations of Article VIII.

Past Surveillance: During the 2008 Article IV consultation, Directors stressed that continued fiscal prudence, strengthened public financial management, and wide-ranging governance reforms would be crucial to reach the HIPC Initiative completion point. With steadfast implementation of actions in these areas, the authorities met the requirements of the completion point in June 2010. Directors also stressed the importance of strengthening the banking system, rebuilding infrastructure, and supporting private sector development to enhance competitiveness. While progress has been made since 2008, particularly in regard of strengthening the banking system and attracting foreign direct investment, further progress is needed in infrastructure rehabilitation and domestic private sector development.

Program Performance: All performance criteria under the program through June 2010 were met. Completion of two structural benchmarks faced some minor delays.

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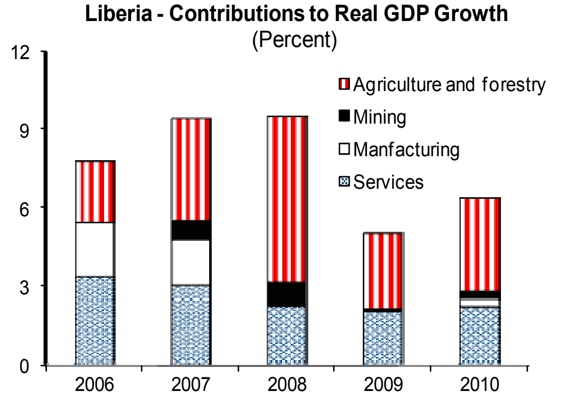
Abbreviations and Acronyms

AICD	Africa Infrastructure Country Diagnostic
ASYCUDA	Automated System for Customs Data
CBL	Central Bank of Liberia
DMC	Debt Management Committee
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
EPA	Economic Partnership Agreement
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
IPD	Import Permit Declaration
MEFP	Memorandum of Economic and Financial Policies
MFI	Microfinance Institutions
NDA	Net Domestic Assets
NPV	Net Present Value
PC	Performance Criterion
PFM	Public Financial Management
PRS	Poverty Reduction Strategy
SDR	Special Drawing Rights
SSA	Sub-Saharan Africa
TMU	Technical Memorandum of Understanding
UN	United Nations
WAMZ	West African Monetary Zone
WTO	World Trade Organization

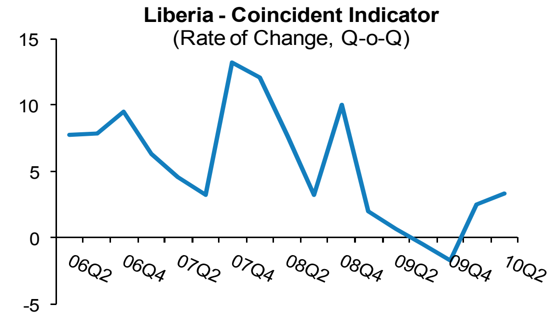
I. Introduction and Recent Developments

1. **Liberia's post-conflict economic stabilization is now essentially complete**. As discussed in the remainder of this report, substantial vulnerabilities and challenges remain. The requirements for the HIPC Completion Point were met in June 2010. Post completion point, nominal public sector external debt amounts to 9 percent of GDP, assuming HIPC terms are offered by remaining non-Paris Club creditors.

2. **The pace of economic growth is picking up after a slowdown in 2009 that was related to spillovers from the global recession**. The recovery is led by agriculture, notably the rubber sector and the restart of commercial logging (Figure 1, Table 1).

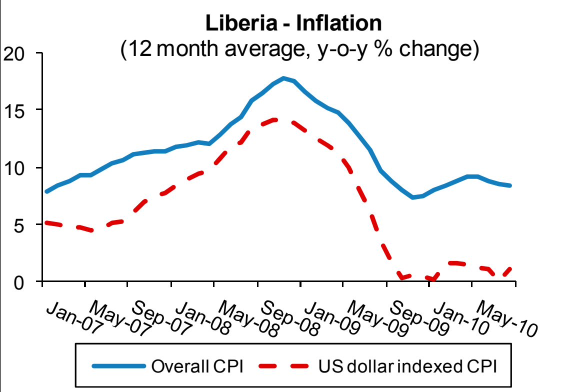


Source: IMF staff estimates.

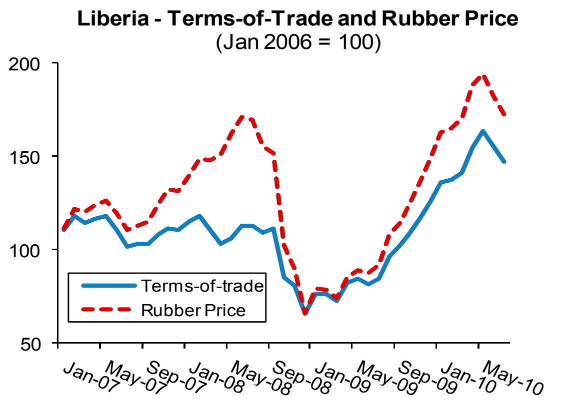


Sources: Liberian authorities, and IMF staff estimates.
Note: This indicator of activity combines seven monthly data series (exports, rice imports, cement production, government expenditure, broad money, and the L$/US$ exchange rate).

3. **Terms of trade movements have been favorable**. Inflationary pressure is easing due to lower fuel and food prices, while rising commodity prices have contributed to a rebound in rubber exports (Table 2).

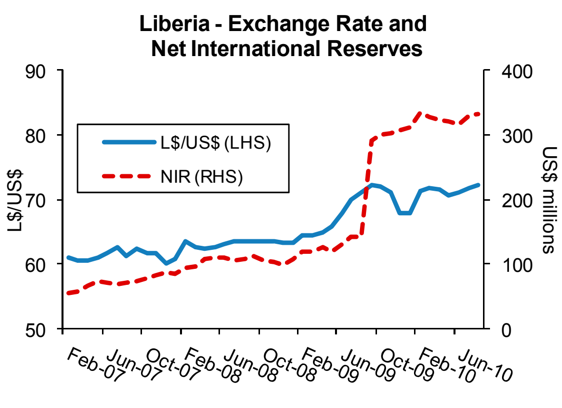


Sources: Liberian authorities, and IMF staff estimates.

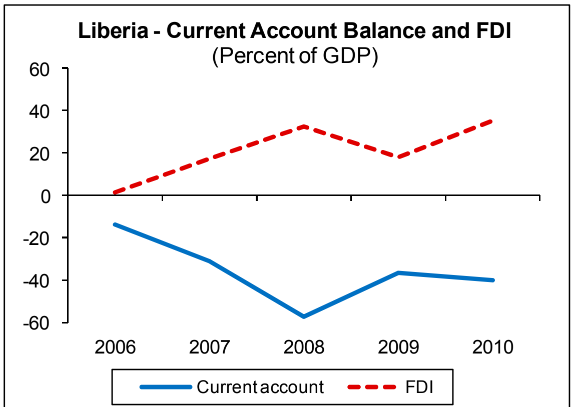


Source: IMF staff estimates.

4. **Higher net inflows of foreign exchange in 2010 have stabilized the exchange rate and permitted a modest increase in reserves** (Tables 3a–3b). Foreign direct investment (FDI) commitments have increased substantially, as have estimated FDI inflows. The related increase of imports is reflected in a higher current account deficit.

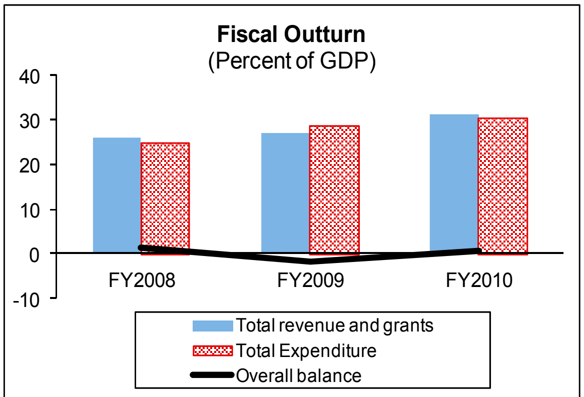


Source: Liberian authorities.

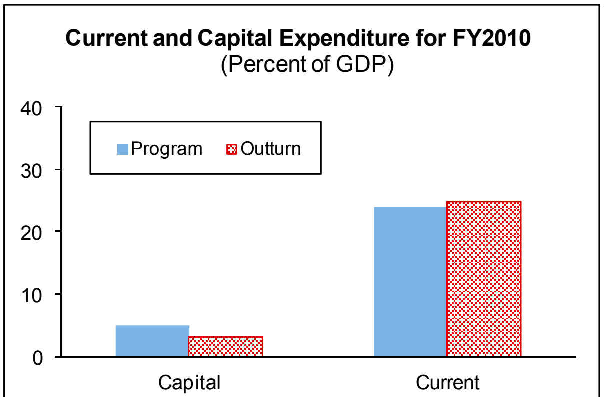


Source: IMF staff estimates.

5. **Government revenue continued to rise in FY2010, and a balanced budget was maintained despite a small shortfall in nontax revenue**. Both revenue and expenditure broadly achieved their programmed levels, but capital expenditure fell short by about 2 percentage points of GDP (Tables 4a–4b).



Source: Liberian authorities.



Source: Liberian authorities.

6. **Structural reforms, economic legislation and concession agreements advanced**. Since the last Article IV consultation at end-2008, the authorities have instituted far-reaching institutional and legal changes in public financial management, debt management, budget process, tax policy, and tax administration. In the financial sector, a raft of legal and regulatory improvements were implemented aimed at strengthening the sector's stability, increasing intermediation, and expanding access to financial services. The FY2011 budget for the year starting in July was approved only in September; with the main budget parameters in line with staff estimates. The Legislature also approved a new Commercial Code, an act to establish a commercial court, and changes to the Revenue Code (approved in 2009) were finalized by the Executive. Concessions in the iron ore and palm oil sectors, and a concession for port management in Monrovia, were ratified. Offshore oil exploration rights were sold to a major oil company, raising expectations of a discovery.

7. **Program implementation is broadly on track**. All performance criteria and indicative targets through June 2010 were observed. Four of five structural benchmarks were substantively completed, one with a minor delay, while the remaining benchmark (publication of national accounts) has been put back to early 2011 (see Attachment I, Supplementary Memorandum of Economic and Financial Policies (MEFP) Tables 1a and 2).

II. Surveillance Issues

8. **With post-conflict economic stability and debt relief achieved, the challenge is to direct Liberia's reform momentum into a sustained push for broad-based development**. The authorities aim to achieve middle-income status through a new development strategy "Liberia Rising 2030" stressing inclusive growth, capacity building, and infrastructure investment. The strategy is at an early stage of preparation; it envisages large-scale foreign investment in enclave sectors—notably iron ore and palm oil—with the resulting fiscal revenues devoted to investment in essential infrastructure. The intention is to create "growth corridors" integrating currently isolated areas and establishing links to international markets. It is anticipated that costs will decline as additional roads, power, and ports come on stream. The authorities expect this to motivate a significant expansion of private sector investment in the non-enclave sectors of the economy, creating needed employment and, ultimately, broad-based and rapid growth. They agreed with staff that continued implementation of governance reforms—including in the rule of law, property rights, transparency, and tax administration—could substantially reinforce the resulting improvement in the business climate.

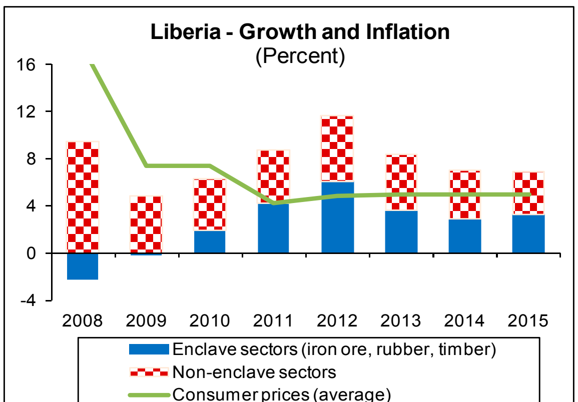
9. **Staff considers the outline of the development strategy to be well conceived and appropriate to Liberia's current situation**. The consultations focused on competitiveness issues, identifying structural impediments to growth, the impact of the iron ore and palm oil concessions on the macro-economy and the budget, including their contribution to infrastructure rehabilitation, and how to expand the role of the financial sector in supporting growth.

A. Medium-Term Outlook and Risks

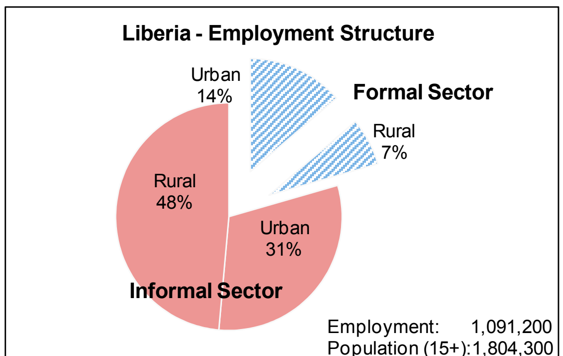
Baseline medium-term projection						
	2010	2011	2012	2013	2014	2015
Real GDP growth (%)	6.3	8.8	11.7	8.4	7.1	7.0
Real GDP growth excl. mining (%)	6.3	6.6	6.5	6.0	5.8	4.3
Overall fiscal balance, incl. grants (% of GDP)	0.6	-0.5	-3.4	-4.5	-5.5	-5.3
Overall fiscal balance, excl. grants (% of GDP)	-0.8	-6.4	-7.2	-8.7	-10.3	-10.3
Current account, incl. grants (% of GDP)	-40.4	-59.2	-64.9	-74.9	-20.9	-13.8
Gross official reserves (millions of US dollars)	317	330	340	350	360	369
Months of imports of goods and services [1]	2.6	2.0	2.0	1.9	2.6	2.6
Months of imports of goods and services [2]	3.1	2.6	2.6	2.5	2.9	2.9

Sources: Liberian authorities, and IMF staff estimates.
1/ Excluding UNMIL service imports.
2/ Excluding UNMIL service and FDI-related imports.

10. **Medium-term prospects remain favorable, though heavily dependent on the commencement of iron ore and timber production** (Figure 2 and Table 5). The program baseline assumes continued sound macroeconomic policies, broadly unchanged donor support, and ongoing political stability. Growth is expected to recover to 6 percent in 2010, with an expansion of timber production, and then accelerate further as iron ore exports begin in 2011. Over 2011–13, an expansion of foreign investment-financed imports for the construction of mines is expected to raise the external current account deficit substantially. But this effect should end by 2014, when a reduction of imports and rising iron ore exports would allow a significant moderation in the current account deficit. Inflationary pressure is expected to be contained over this period, as the high import content of the FDI flows, lack of linkages between the enclave sectors and the rest of the economy, and slack in the domestic employment market limit the potential for overheating.



Source: IMF staff estimates and projections.



Source: Preliminary estimates from labor force survey in Liberia for 2008.

11. **Nonetheless, medium-term projections remain subject to significant risks**. While new agreements with foreign investors reduce downside risks to exports—indeed there is a significant upside to the baseline scenario—Liberia remains vulnerable to fluctuations of commodity prices that could lead to investor retrenchment and add to revenue volatility. At the same time, there is a clear risk of "growth without development"[1] where the revenues from the

[1] Clower et al., *Growth Without Development – An Economic Survey of Liberia*, 1966 note: "…enormous growth in primary commodities produced by foreign concessions for export has been unaccompanied either by structural

(continued)

enclave sectors are not effectively directed towards broad-based development objectives. Additional risks include potential instability or a slowdown of reforms in advance of the end-2011 presidential elections and the prospective post-election drawdown of UN security forces. The potential discovery of offshore oil poses risks both on the upside (income) and downside (governance).

B. Competitiveness and External Stability Assessment

12. **Quantitative, qualitative, and structural indicators of competitiveness were discussed**. The authorities broadly accepted the staff's assessment that cost competitiveness is a significant issue to be addressed over the medium term through a wide range of policy actions. At the same time, exchange rate policy is unlikely to be a key factor due to the high dollarization of the Liberian economy.

13. **The visible trade deficit has remained at, or over, 40 percent of GDP over the period 2007–2010**. Developments in the trade balance were dominated by FDI- and aid-related imports and, to a lesser extent, by the expansion of exports of rubber. A very high deficit in services, which averaged 50 percent of GDP, is also largely related to aid inflows. Liberia's trade deficit has been financed by official transfers and FDI. Total official transfers, excluding UNMIL, and FDI averaged 50 percent and 25 percent of GDP, respectively.

14. **The current account deficit is high and volatile, but expected to moderate over the medium term**. The current account deficit weakened in 2008, when it reached almost 60 percent of GDP, mainly as a result of the fuel and food price shock raising imports and a sharp increase in FDI that boosted imports of capital goods. In 2009, in the context of the global recession, the current account balance improved as a reduction of FDI-financed imports exceeded a parallel drop of rubber exports. In 2011–12, a projected strengthening of FDI would lead to a renewed weakening of the current account, and the deficit is projected to remain above 50 percent of GDP. However, in the following years, both the trade and current account balances are expected to improve as a result of the restart of timber, iron ore and later palm oil exports. Export processing and import substitution remains very limited, even for many basic commodities, and pointing to a need to improve the business environment.

15. **Although much improved, business climate and governance indicators point to significant challenges for the creation of a competitive and diversified economy**. Liberia has made advances in the Doing Business Indicators, surpassing the fragile states average[2] and

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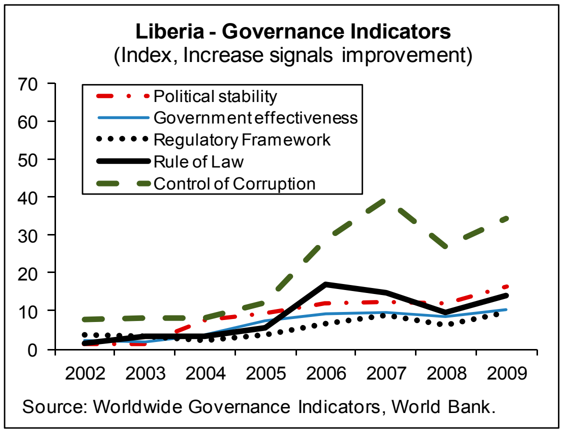
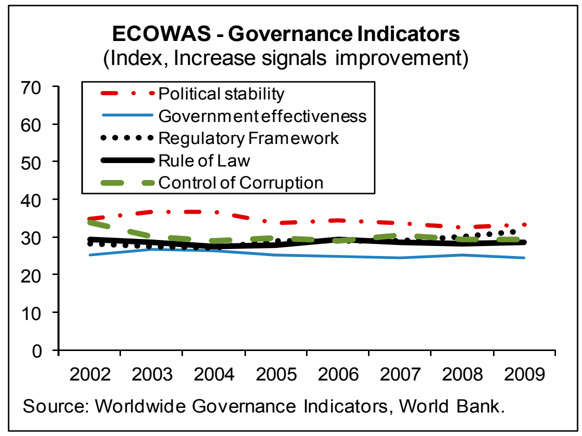
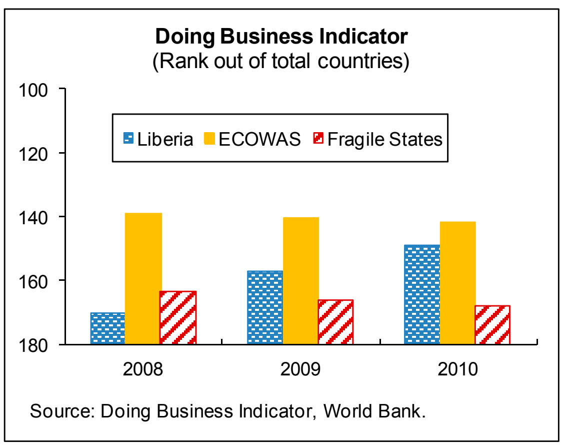
changes to induce complementary growth or by institutional changes to diffuse gains in real income among all sectors of the population."

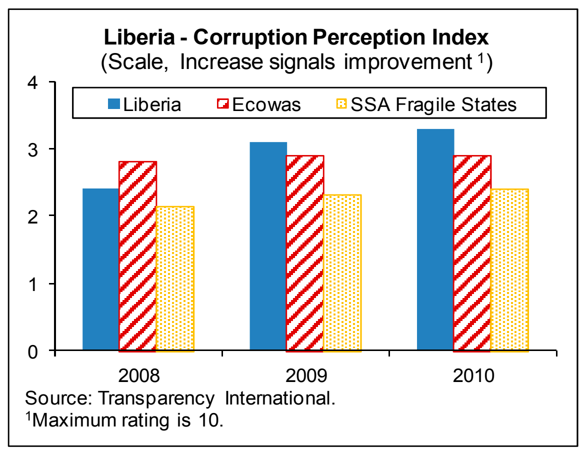
[2] Sub-Saharan Africa Fragile States as defined in the IMF sub-Saharan Africa Regional Economic Outlook: Burundi, Central Africa, Comoros, Congo Dem Rep, Cote d'Ivoire, Eritrea, Gambia, Guinea, Guinea-Bissau, Liberia, Sao Tome, Sierra Leone, and Togo.

approaching the ECOWAS region average.[3] Governance indicators have also improved, with the gap against the ECOWAS average narrowing substantially, though weak administrative capacity, a large number of administrative fees and procedures, and uncertain property rights still represent serious obstacles to the increase of investment outside the natural resources sector. Encouragingly, the Transparency International Corruption Perceptions Survey shows a substantial improvement in Liberia since 2008, with a 2010 ranking in the top five of sub-Saharan Africa (SSA).









16. **The authorities considered that progress in improving the business environment has been substantial, but that more was clearly needed**. Given the high level of dollarization, the consensus was that any action to improve competitiveness would need to involve productivity gains, including through removing bureaucratic, legal and physical obstacles rather than exchange rate adjustment. Other factors contributing to the lack of competitiveness of local production were considered to be the small size of the domestic market, weak trade links with neighboring countries, and high transport costs. The authorities

[3] Economic Community of West African States: Benin, Burkina, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea (suspended), Guinea-Bissau, Liberia, Mali, Niger (suspended), Nigeria, Senegal, Sierra Leone, and Togo.

expected that ongoing regional trade integration within ECOWAS, WTO accession, and better transport infrastructure would eventually improve the situation.

17. **The authorities also noted that competitive labor costs were a positive factor in the external stability assessment**. While information is limited, staff recognized that labor costs, especially unskilled labor, were competitive in a regional and global context, although these benefits were more than offset by higher non-labor costs for goods and services inputs.

18. **A preliminary real exchange rate assessment using the Consultative Group (CGER) methodologies indicated a moderate overvaluation in the medium term**. The macroeconomic balance approach points to an overvaluation between 12 and 15 percent depending on the estimated parameters.

Macroeconomic Balance Approach
(dependent variable current account/GDP)

	I	II	III
Fiscal balance/GDP (rel. to trading partners)	0.20	0.283	1.04
Old age dependency	-0.14		
Population growth (rel. to trading partners)	-1.21		
Initial NFA/GDP	0.02	0.048	
Oil balance/GDP	0.23	0.319	0.18
Per capita growth (rel. to trading partners)	-0.21	-0.437	
Relative income	0.02		0.07
CA Norm (percent of GDP)	0.1	-2.4	-3.3
Underlying CA projection (percent of GDP)[1/]	-18.0	-18.0	-18.0
Current Account Gap (percent of GDP)	18.1	15.6	14.7
Real Exchange Rate gap (percent) [2/]	-15.4	-13.2	-12.5

[1/] The underlying current account projection is based on WEO projections up to 2015.
[2/] Appreciation (depreciation) needed in the real exchange rate to close the gap between the norm and the underlying. The calculation is based on a medium-term elasticity of 0.44, which assumes the CGER elasticity weighted by the ratios of exports and imports of goods and services in 2015.

19. **The external stability approach calculates that Liberia's medium-term net foreign assets (NFA) would stabilize with a current account deficit of 9 percent of GDP**. The difference between the underlying current account balance and the NFA-stabilizing current account balance is translated, as in the macroeconomic balance approach, to the required real exchange rate adjustment, by using the global trade balance elasticity.[4] Since the NFA-stabilizing current account deficit is smaller than the underlying current account deficit, the real exchange rate adjustment needed to close the gap is calculated to be about 8 percent.

[4] The current account that would stabilize the NFA at this level is determined as follows:
$CA^s = [(g + \Pi(1+g))/(1+g)(1+\Pi)]b^{s}$, where: CA^S = stabilizing level of the current account balance to GDP, g = the estimated growth rate of real GDP, Π =estimated inflation, b^S= stable net foreign asset to GDP ratio.

External Stability Approach
(percent of GDP, unless otherwise indicated)

	Net foreign asset position 1/	Growth (percent)	Underlying Current Account	Sustainable Current Account	Gap	Depreciation in the real exchange rate (percent)
Medium Term 2/	-9.0	8.0	-18.0	-8.3	9.7	-8.5

1/ Assumes a stabilizing net foreign position of -9.0 percent of GDP.
2/ The calculation is based on a medium-term elasticity of 0.31, which assumes the CGER elasticities weighted by the ratio of exports and imports of goods and services in 2009.

20. **Overall, the economy's resilience to exogenous shocks has improved**. The 2009 SDR allocation substantially strengthened reserve adequacy. A projected decline in the reserves to imports ratio from 2.6 months in 2009 to 2.0 months over 2011–13 results from a strong expansion of imports financed by FDI in the iron ore sector. Import coverage excluding FDI-related imports would drop to 2½ months coverage 2011–13 and then is projected to rise to 2.9 months in 2014–15. A revised debt sustainability analysis confirms that all debt indicators remain well below policy-related thresholds, except the historical scenario (Figures 3a–3b).[5]

Structural Impediments to Growth

21. **Several structural elements impede competitiveness and growth outside of the enclave sectors**. These factors were identified on the basis of in-depth diagnostic studies by the authorities and/or international partners. The authorities noted that full or partial strategies to overcome these barriers are being implemented. Staff believe that more ambitious efforts may be required. The consensus on structural impediments to growth centered on:

- **Inadequate infrastructure**. Roads, ports, energy and water supply are in very poor condition or not available. For example, energy costs are three times the African average, which deters both production and trade. Road paving ratios are comparatively low and entire regions of the country are inaccessible by land during the rainy season. A multi-donor diagnostic of infrastructure needs has been completed (see section C on meeting infrastructure financing needs).

- **Insecurity of land tenure**. An inadequately defined and enforced legal framework—a combination of civil laws and customary arrangements—and an inadequate land administration has resulted in irregular occupation of land and

[5] The historical scenario is not considered a reliable indicator of potential debt distress as it is based on a limited set of historical data from the immediate post-conflict period 2004/05 to 2007/08 with very high current account deficits.

endemic land disputes. The use of the Eminent Domain Law to demarcate concessions land area is also controversial as, historically, concessionaires have only used a small fraction of the land granted. The creation of a Land Commission in 2009 to advise on the resolution of disputes and improve land titling and registry was an important step forward. However, as the Commission does not have binding authority for dispute resolution, the authorities may need to consider more far-reaching legislative reform to speed up progress in this important area.

- **Financial sector development**. Comparatively low financial intermediation and a narrow range of financial products substantially curtail financing for the private sector. Building on improvements in the legal and regulatory framework, the authorities are looking for creative solutions to expand access to the financial sector, through structured SME lending, microfinance, and mobile banking (further discussed in Section D) and, over the medium term, to develop the capital market.

- **Limited implementation capacity**. Poverty Reduction Strategy (PRS) implementation reports identify limited domestic implementation capacity as the most important constraint to achieving PRS targets. While numerous initiatives exist to augment capacity, many are time-bound and externally financed. Accordingly, the authorities have prepared a National Capacity Development Strategy to address long-term capacity building needs.

- **Fragility of peace**. Unmet expectations from the "peace dividend" and the persistence of tensions among numerous tribal groups and between indigenous Liberians and Americo-Liberians could lead to renewed instability and reignite conflict.[6] UN police and military forces assist in maintaining security, while the authorities have sustained external support in three targeted areas: strengthening the rule of law; security sector reform; and supporting national reconciliation.

C. Economic Impact of Foreign Direct Investment Projects

22. **The potential macroeconomic impact of foreign investment concessions in the iron ore and palm oil sectors is large**. Staff developed financial models to assess the effects of the investments on growth, revenue, and the balance of payments (Box 1). Medium-term fiscal projections incorporating concession revenues were used to analyze the scope to meet infrastructure development needs.

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[6] Source: US Government *Liberia: Interagency Conflict Assessment Report (2010, unpublished).*

Box 1: Incorporating Resource Models into the Macroeconomic Framework

Staff derived estimates of the macroeconomic impact of foreign direct investment in the iron ore and palm oil sectors.

- Six ratified foreign investment concessions, four in iron ore and two in palm oil, were modeled. Model outputs included physical production, fiscal revenue, exports, foreign and domestic labor income, profit transfer, capital flows.

Outputs from the financial models were incorporated into the baseline macroeconomic framework.

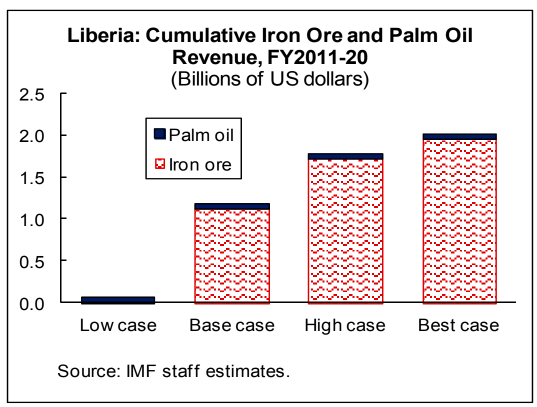
- Four scenarios were considered: the program baseline (three concessions); a high case (five concessions); a best case (six concessions); and a low case with only palm oil concessions and no iron ore production.

- Borrowing was held to the level programmed at the time of the fourth review of the ECF-supported program: up to 3 percent of GDP per year while keeping the external debt stock below 30 percent of GDP (both expressed in net present value terms); while budget grants were held constant at 5 percent of baseline GDP in all scenarios. To accommodate rising health and education spending, non-interest current expenditure was assumed to increase in real terms by about 5 percent each year.

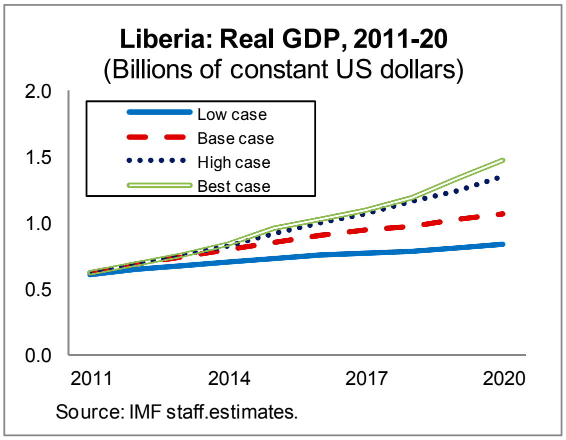
- All resources available after current spending were assumed to be devoted to capital investment, i.e. capital spending is determined by available resources not calculated needs**.** The framework does not explicitly assume absorption constraints. However, the focus of the analysis is on a ten-year period (2011-20). Operational and implementation capacity issues would likely affect the specific annual path and the rate of investment scale up.

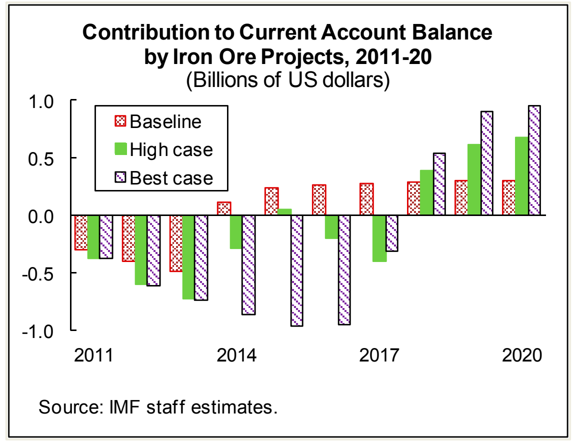
The macroeconomic framework incorporated a feedback effect where the increase in infrastructure capital stock was assumed to raise productivity in the non-enclave sectors, boosting production.

23. **Potential revenues are substantial and the revenue profile is back-loaded within the period 2011–20**. Back-loading results from lengthy pre-production investment periods, while profits and therefore corporate tax revenues are significant only after capital is fully depreciated. The palm oil contribution to revenue is negligible up to 2020 (it takes 5 years for oil palms to grow to maturity).



24. **The growth impact is also significant.** There is a direct effect resulting from the operations of the concessions. There is also a smaller, indirect effect from the assumed increase of publicly-financed infrastructure projects financed by concessions revenues. The resulting increase in the capital stock is assumed to raise output in the non-enclave sector through a feedback mechanism.





25. **The concessions would substantially strengthen the balance of payments position over the medium to long term**. The initial direct impact on the external current account is projected to be highly negative, reflecting the investment phase of the projects. As production expands, the balance of payments impact will turn positive, despite large profit transfers. This positive contribution represents the share of value added accruing to government and domestic labor net of additional imports of goods and services.

26. **Over the next ten years, meeting Liberia's infrastructure needs would require at least US$3.7 billion (382 percent of 2010 GDP)**. This is the conclusion of the multi-stakeholder Africa Infrastructure Country Diagnostic (AICD), completed in 2010, which covered roads, power, ports, water and sanitation, and telecommunications, but excluding ports that are assumed to be privately financed.

Liberia: Total Infrastructure need, FY2011-20
(Billions of US dollars)

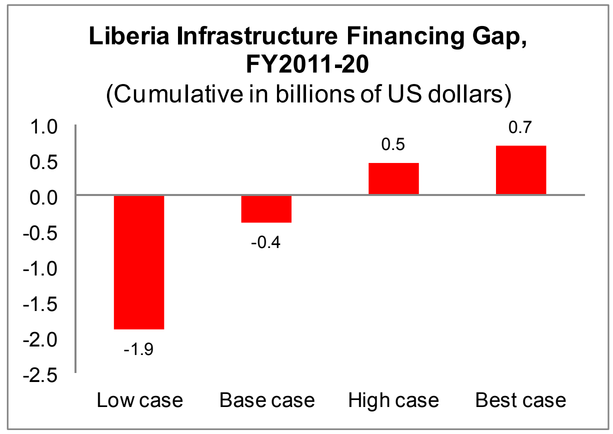
Total infrastructure need	3.7
Roads	1.1
Water and Sewerage	0.8
Water	0.5
Sanitation	0.4
Power	1.3
Generation	0.9
Transmission and distribution	0.5
Other	0.5

Source: Africa Infrastructure Country Diagnostic.

27. **Funding the costs of the infrastructure program could be greatly facilitated by revenue from concessions over the medium term**.

- Financing for infrastructure is assumed to come from three main sources: concession revenues, donor support in grant form, and concessional borrowing consistent with the authorities' debt management strategy.

- Medium-term fiscal projections indicate that in all but a low case scenario—which assumed no iron ore activity after 2010—the infrastructure program is largely affordable. In the baseline scenario, a cumulative financing gap of US$0.4 billion remains, but nearly 90 percent of the infrastructure investment could be financed over the ten year period.

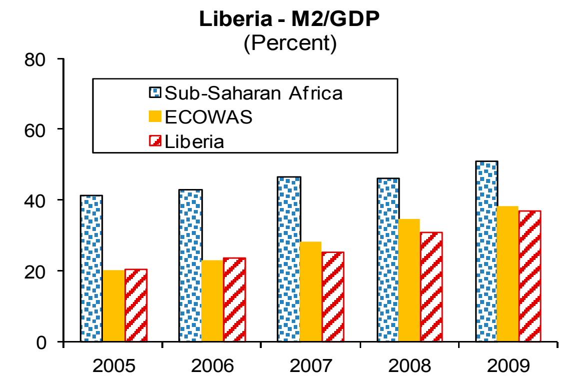


- A debt sustainability analysis indicates that filling the residual financing gap in the baseline case through concessional borrowing appears viable. But debt would rise above the vulnerability thresholds if loans were at market rates and maturities.

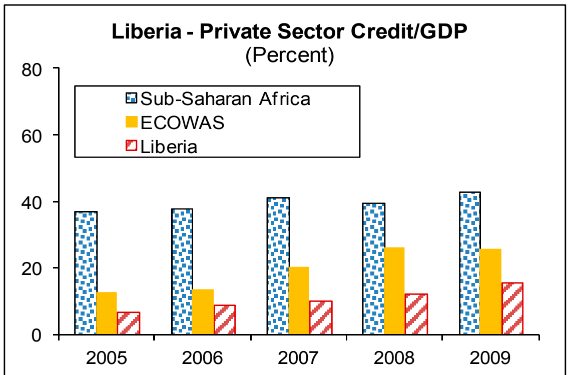
28. **The emergence of a financing gap in the baseline scenario is indicative of the need to intensify reform in other areas**. The authorities noted that improvements in tax administration—omitted from the staff's framework—could provide additional resources; as would their intention to develop a public investment plan to mobilize and redirect aid to priority areas. The authorities also noted that public sector wage pressures remain strong and could undercut efforts to increase investments. Staff observed that in light of the revenue profile, some back-loading of the infrastructure program would also be necessary, and might be advisable if anticipated improvements in capacity did not materialize rapidly. Improving the quality of expenditure through better planning and implementation would also yield potential savings.

D. Financial Sector Development

29. **The financial sector is not yet in a position to support growth on the scale that is needed due to relatively low financial intermediation and private sector lending**. Substantial progress has been made to expand the banking system, particularly from the expansion into Liberia of other African banks, and the financial intermediation gap between Liberia and the SSA is closing. However, the banking system has significant excess liquidity, and lending to the private sector is limited relative to peer country groups. Small and medium enterprises (SMEs) have particular difficulties in accessing credit. This is mainly due to the weak legal and judicial framework, the limited capacity of commercial banks to appraise SMEs, and high bank operating costs. Interest rate spreads are also high and maturities short term.



Source: IMF staff estimates.



Source: IMF staff estimates.

30. **The range of financial services available remains narrow despite improvements**. Weak physical infrastructure impedes expansion of the banking system and limits the range of services. Rudimentary payment and settlement systems reduce the benefits of using the banking system while the nonbank sector—particularly microfinance, leasing, insurance, and pensions—remains underdeveloped. However, increased competition from new bank entrants is leading to the introduction of new services including e-banking, automated teller machines, and mobile money (see below).

31. **Financial sector development priorities should aim to complete ongoing reforms to the legal and institutional framework, encourage a broader range of financial services, and support increased access to finance**. Upgrading the payments system and implementing recent legislation creating a commercial court are likely the most urgent tasks. The authorities are interested in exploring innovative approaches to expanding access to finance. To this end, staff suggested that successful initiatives in other countries for mobile banking, microfinance, and structured SME lending could be replicated in Liberia (Box 2).

Box 2. African Initiatives to Increase Access to Finance

Mobile financial services. A rapid expansion of low-cost mobile telephone usage in Liberia suggests mobile financial services have a high growth potential. Recent experience in Kenya and Uganda reported by Fund technical assistance experts suggests that around half of mobile phone users use mobile money transfer services, far more than use the banking system. A South African Company, MTN, is expanding mobile banking to about 20 countries in sub-Saharan Africa including to its Liberian subsidiary, Lonestar. Mobile money transfer services in Liberian dollars were launched in April 2010 in collaboration with the largest commercial bank in Liberia. Transactions are minimal so far. While an opportunity for financial sector development, it also poses challenges for the monetary authorities including oversight, IT security and identity verification, while geographical coverage needs further expansion to rural areas.

Box 2. African Initiatives to Increase Access to Finance (concluded)

Structured SME financing. In Ghana, key bottlenecks to SME financing were tackled in a World Bank financed program through: partial credit guarantees for SME loan portfolios; performance-based grants for banks participating in an IFC credit facility; and technical assistance to SMEs. The project reports improved SME access to finance and the creation of 2,000 formal sector jobs over the 12 months to April 2009.

Microfinance institutions (MFIs). The experiences of Ethiopia, Ghana, and Tanzania show that MFIs can play an effective role in broadening financial access through extending microcredit to rural inhabitants. Cross-country data suggests there is considerable scope to expand access and financing through MFIs in Liberia.

Average Loan Size per Borrower in MFIs (US$, as of end-2009)

Ethiopia	Ghana	Liberia	Sierra Leone	Tanzania
118	255	57	187	77

Source: Microfinance Information Exchange (http://www.mixmarket.org).

32. **The authorities broadly share the staff's assessment of financial sector development priorities**. The authorities intend to elaborate an overarching strategy document consolidating the existing initiatives and indicating areas for further attention. This would promote the financial sector as a pillar of the growth and poverty reduction strategy. The financial sector strategy is intended to complement the CBL's annual policy statement and to benchmark progress over a longer-term perspective.

III. Program Discussions

A. Fiscal Policy

33. **Budget execution in FY2010 successfully adjusted to revenue shortfalls, but at some cost to the development program**. The authorities adopted a risk management plan, a program of expenditure cuts set up in response to anticipated shortfalls in budget revenues. The program was widely discussed within government prior to implementation, but spending units nonetheless lacked the capacity to rapidly adapt cash plans to changing circumstances. A number of capital projects were delayed, cancelled, or replaced by current expenditure, leading to a 2 percent of GDP shortfall of capital spending relative to the fiscal program. Staff noted that this outturn suggested a pressing need to develop greater expertise in expenditure planning and according a higher priority to capital spending at all levels.

34. **The FY2011 budget is closely aligned with program parameters and represents a significant improvement over the FY2010 budget process** (Box 3 and MEFP ¶5–6). Fiscal policy is anchored by the debt management strategy which limits borrowing to 3 percent of GDP in net present value terms. Budget preparation followed the new PFM law, and included a medium-term context, a budget framework paper, and a state enterprise reporting annex.

However, the delays encountered during discussion of the budget by the Legislature and finalization by the executive branch through end-October 2010 undermined cash management and planning. In the interim period, expenditure of ministries and agencies was held to one twelfth of the previous year's level. While this provided sufficient funds to avoid serious disruption, staff noted that this outcome was fortuitous, and urged the authorities to work closely with the Legislature to avoid a repetition next year.

Box 3: The FY2011 Budget, July 2010–June 2011

Tax policy changes lower revenue.

- To address perceived over-taxation of formal sector enterprises and deliver on 2009 pledges to wage earners the top personal and corporate income tax rates were reduced from 35 to 25 percent. The net revenue effect is partly offset by higher taxes or excises on alcohol, airlines, cell phone usage, and hotels.
- Nontax revenue is budgeted to increase by almost 2 percentage points of GDP, mainly due to additional one-off payments for new iron ore concessions, and for an oil exploration license that has already been received.

Fiscal Operations of the Central Government, FY2010–11
(Percent of GDP)

	FY2010 Outturn	FY2011 Budget
Revenue and grants	31.0	35.3
Tax revenue	22.4	20.2
Non-tax revenue	7.3	9.2
Grants	1.4	5.9
Expenditure	30.4	35.8
Current expenditure	27.0	27.5
Wages	12.3	13.8
Capital expenditure	3.4	8.3
Overall balance	0.6	-0.5

- Domestic financing occurs through a drawdown of government deposits. The budget included no provision for borrowing.
- Delays in disbursing general budget support from FY2010 leads to an increase of grants in FY2011.

Capital expenditure increases in line with revenue and financing.

- The increase in resources will be devoted to capital expenditure, bringing the budgeted increase in capital spending over the 2009/10 outturn to almost 5 percentage points of GDP. Investment is concentrated in public works, education and health. The underlying increase of capital spending is close to 3 percent of GDP, as FY2010 spending was held back by revenue shortfalls.
- The wage bill is set to rise 1½ percentage points of GDP over the FY2010 outturn due to the regularization of the education and health payroll (7,000 additional teachers and nurses) and selective increases to security forces.

The authorities anticipate tabling a supplementary budget early in 2011, in consultation with Fund staff, if additional revenues materialize or concessional funding is identified.

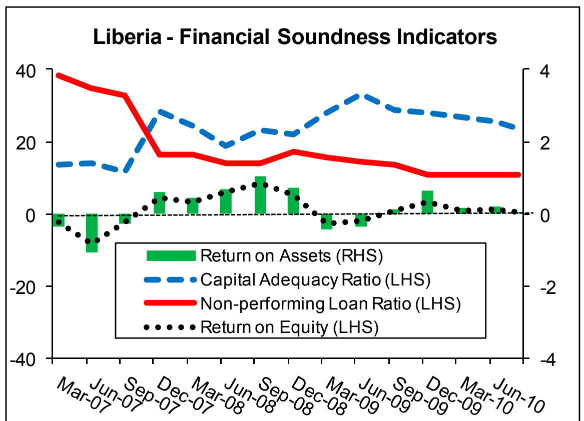
35. **Staff broadly supported the main FY2011 budget parameters, while noting implementation risks**. Both tax and nontax revenue projections appeared realistic, given the first quarter outturn. Staff considered the increase in the wage bill to be sustainable, and

necessary to lay the foundation for improved service delivery in health, education, and security. The main risks to implementing the capital budget are capacity constraints that could slow project implementation and delays that could occur if budget support were not disbursed on a timely basis.

36. **Over the medium term, capital spending is expected to increase substantially, funded largely by iron ore taxation and concessional borrowing**. With a large projected increase of investment, capacity and quality of investment issues loom large—the authorities are beginning to develop their planning capabilities but may find it difficult to deliver the desired scale up without extensive support from partners and the private sector. Staff considers that an annual real increase of non-interest current expenditure of about 5 percent could accommodate significant increases in other priority spending. Combined with a moderate increase of interest spending, total current expenditure is programmed to stabilize as a percent of GDP. Changes in tax policy are at the planning stage.[7] Future tax administration improvements could support revenue growth. A review of nuisance taxes, fees and charges is expected to reduce business compliance costs.

B. Monetary and Financial Sector Policies

37. **Monetary policy continues to aim at containing excessive volatility of the exchange rate**. Pressure for exchange rate depreciation against the US dollar has substantially reduced since early-2010. The CBL has tailored foreign exchange auction sales to market conditions to contain volatility, while achieving a modest increase in the net foreign exchange position (MEFP ¶9).



Source: Liberian authorities.

38. **Liquidity monitoring remains important**. The banking sector remains highly liquid with vault cash and excess required reserves equivalent to 45 percent of total commercial deposits as of end-June 2010. Accordingly, net domestic assets of the CBL are slightly below projections, reflecting higher-than-anticipated commercial bank deposits at the CBL. The foreign exchange auction functions to mop up some excess liquidity, in the absence of domestic capital and interbank markets, but the use of this instrument is limited by reserve accumulation objectives. The anticipated launch of the local currency treasury bill market will add a new liquidity management instrument. The

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[7] The authorities intend to adopt the ECOWAS Common External Tariff, and are considering improvements to the fiscal regimes governing the forestry and petroleum sectors and the eventual adoption of a VAT.

immediate challenge for the CBL is to improve its liquidity monitoring and forecasting capacity. Staff reiterated the need for improved collaboration and information sharing between the CBL and the MoF.

39. **Banking sector profitability remains low**. All banks respect the required prudential ratios. The increase of the minimum capital requirement to US$10 million by end-December 2010 will further contribute to financial stability in the banking sector. Nonetheless, staff raised concerns about the continued low profitability of the system. This is attributable to high operating and overhead costs relative to income and, possibly, enhanced competition from new entrants. Staff noted that the CBL lowered the minimum general provisions for loan loss to 1 percent from 2 percent in August 2010 to provide incentives for extending new loans.

40. **Maintaining adequate foreign exchange reserve coverage is an important element of confidence building in the financial sector and for the Liberian dollar**. The imminent introduction of the local currency treasury bill market may eventually help boost demand for Liberian dollars. Replacing damaged or mutilated bank notes in circulation and issuing higher-denomination notes could be considered, although the authorities are concerned about possible adverse effects on inflation expectations from higher-denomination notes. The CBL has drawn on its reserve account (balances resulting from currency gains) to finance the rehabilitation of its headquarters during 2010–11. The resulting expenditure in foreign exchange can be accommodated through the margin against reserve targets in the monetary program (amounting to US$16 million at end-June 2010) but should not undermine the objective of a gradual build-up of foreign exchange reserves.

41. **Meaningful progress has been made in strengthening internal financial controls at the CBL**. Based on the 2008 safeguards assessment recommendation, the CBL has been building up internal audit capacity and reached a position to carry out semi-annual data audits. Staff supported a handover of the audit for the monetary data reporting package to the internal audit section of the CBL from the second half of 2010 (MEFP ¶10).

C. Structural Reforms and Poverty Reduction Strategy

42. **The delivery of structural reforms monitored as benchmarks under the program has generally proceeded satisfactorily** although publication of national accounts is delayed to early 2011 (MEFP ¶7–8 and ¶12):

- Trade facilitation has been enhanced by the introduction of a short negative list of goods requiring an import permit declaration (IPD) from the Ministry of Commerce (fuel and selected chemicals, explosives, hazardous waste, cultural artifacts, obscene materials, military vehicles, and aircraft). Previously all imports required signed permits that were regarded as an impediment to trade by business councils.

- The CBL publicized regulations for treasury bill auctions to those eligible to participate, setting the stage for intra-year budget financing of the FY2011 budget.
- The Ministry of Finance pays all government civil servants in Monrovia by direct bank transfer, as well as civil servants in 7 of the other 14 counties. This reduces the scope for check fraud and fiscal losses, and encourages use of banking services.
- A computerized asset registry has been compiled for 85 of the 89 ministries and agencies substantively completing the exercise. The omissions concern ministries that have assets in the counties that are logistically difficult to cover. This has enhanced transparency and made ministries and agencies more accountable for the loss of public property.
- Data problems, including estimation of the informal sector and dual currency reporting, have delayed the publication of validated national accounts from September 2010 to February 2011.

43. **Other structural reforms advance and new priorities are emerging**. Implementation of the Public Financial Management Act is continuing, but additional efforts are required to ensure that the transition to improved public accounting and reporting is completed by June 2011. Continued vigilance is needed in the areas of public procurement, fiscal terms of concessions, and external audit. There is an urgent need to strengthen the capacity to evaluate and select projects as an input to the medium-term expenditure framework, to develop the system of internal audit, and to strengthen expenditure and cash management.

44. **The second year implementation report of the Poverty Reduction Strategy covering the period to April 2010 reports improved implementation** (MEFP ¶13). The implementation rate of deliverables increased from 20 percent in the first year to 80 percent in the second year. In recognition that some of the third year deliverables will not be achieved by mid-2011, the PRS has been extended to end-2011.

D. Statistical Issues

45. **Weaknesses in the national accounts and the balance of payments statistics hamper surveillance**. These issues are discussed in the accompanying Informational Annex. Financing and technical assistance from the Fund and other agencies is being provided to upgrade statistical capacity in these areas.

E. Debt and External Policies

46. **Following the HIPC completion point reached in June 2010, Liberia has a low risk of debt distress**. The recent agreement with Paris Club creditors on the full cancelation of the remaining debt will further reduce debt vulnerabilities; and the authorities are working

on bilateral agreements with Paris Club creditors, intending to finalize them no later than March 2011. They are also committed to seek comparable treatment from remaining bilateral and commercial creditors. Negotiations continue with remaining non-Paris Club bilateral creditors. A debt buyback funded by the World Bank managed Debt Reduction Facility was completed with the final two remaining commercial creditors in November 2010. The Debt Management Committee is fully operational, and over the coming months intends to issue guidelines for new borrowing and government guarantee requests, and to initiate and assess proposals for investment projects that could be eligible for external concessional financing (MEFP ¶4).

47. **Efforts have intensified to advance multilateral and regional trade arrangements** (MEFP ¶11). Following the request for membership in 2007, Liberia has recently become an observer at the WTO. The authorities have indicated that their Memorandum on the Foreign Trade Regime has been finalized and will be sent to the WTO secretariat by end-2010. They expect to conclude the membership process in 2012. The authorities also finalized the Liberian trade strategy, required for the Economic Partnership Agreement (EPA) with the European Union. Together with other ECOWAS members, Liberia remains committed to the adoption of the common external tariff, according to the agreed migration plan, which has been a key obstacle so far to the finalization of the regional EPA.

IV. Program Monitoring

48. **No changes to program conditionality are proposed**. The Technical Memorandum is amended to reflect changes in the program path of concession payments for March and June 2011 (Attachment II).

V. Staff Appraisal

49. **Sound macroeconomic policies, strengthened institutions, and debt relief have stabilized the economy and supported confidence building**. Alongside these improvements, implementation of the PRS has improved markedly in the year to April 2010. Economic growth is recovering after a slowdown from global financial crisis spillovers. Improvements in the terms of trade have supported exports and moderated import price inflation. The global economic recovery, buttressed by the completion of HIPC Initiative debt cancellation, has supported confidence, as evidenced by a surge of new foreign investment commitments, and raised underlying growth potential.

50. **While medium-term growth prospects are bright for commodity exports, huge developmental challenges remain**. The authorities have finalized investment agreements with several multinational investors in iron ore mining, palm oil production, and offshore oil exploration. These investments, particularly iron ore, will significantly improve fiscal revenues over the medium term, especially after 2015. Outside the enclave sectors major growth and development challenges remain.

51. **Fiscal policies have hitherto supported the stabilization effort and will need to be tuned to the development challenges ahead.** The zero new borrowing policy supported debt reduction, reserve accumulation, and exchange rate stability and provided breathing space to strengthen planning capacity, public financial management, and debt management capabilities. The authorities have taken a prudent approach to borrowing post-debt relief—with no provision for new borrowing in the FY2011 budget—and debt management policies are significantly enhanced. However, the authorities' preparedness for a desired scale-up of public investment spending is far from complete, and may slow the pace of implementation. A concerted effort will be needed within the government, along with effective engagement from bilateral and multilateral partners, to identify and implement strategic infrastructure projects.

52. **The revisions to the revenue code are welcome, following lengthy delays in finalizing the legislation**. To counter the perception that the tax burden on the private sector is large, the authorities will review and streamline nuisance taxes and various user fees and regulatory charges. Attention should also be given to ensuring that the fiscal terms of new concession agreements are in accordance with the revenue code. Wage and employment pressure is becoming evident and risks crowding out public investment if not tackled in future budgets.

53. **The scope for an active monetary policy remains limited due to high levels of dollarization and the lack of monetary instruments**. Confronted by sustained external pressures, flexibility of the exchange rate has helped, to some extent, in dealing with shocks. Introducing some variation in foreign exchange sales has contributed to reducing exchange rate volatility. The introduction of treasury bill auctions expected in FY2011 will eventually create a new liquidity management tool. While confidence building should in time support greater use of the Liberian dollar, in the interim, practical measures to enhance use of the Liberian dollar as a means of payment are needed. A gradual build-up of foreign exchange reserves should continue.

54. **The exchange rate has a minor role to play in ensuring external stability and competitiveness due to high dollarization**. Quantitative measures and qualitative indicators, notably limited import substitution and undiversified exports, suggest that cost competitiveness is a significant issue in Liberia. The expansion of commodity exports over the medium term would bolster incomes and take Liberia a long way towards external stability. Indications of moderate overvaluation of the real exchange rate over the medium term need to be treated cautiously due to data limitations and major ongoing structural changes.

55. **The economic and fiscal impact of the concessions is expected to be large**. Staff analysis indicates that the FDI investments in concessions will boost income growth and fiscal revenues while strengthening the balance of payments, notwithstanding large factor

payments abroad. However, the concessions are unlikely to generate the scale of job creation needed to absorb the growing, young, and under-employed labor force.

56. **Structural impediments to growth outside the concessions sector are significant**. There is a consensus that the main developmental challenges also affect competitiveness and external stability. They are: infrastructure rehabilitation; financial sector development; capacity building; defining and enforcing property rights; and maintaining security. The diagnostics of these problems by the authorities and development partners are strong. In some areas, the authorities have or are developing strategies for overcoming these barriers to growth, notably in capacity building, infrastructure, and financial sector development. The resolution of property rights issues–which is fundamental to production, investment and security issues—is seen as very difficult. Initial steps have been taken, and more are needed.

57. **Accelerating infrastructure development is a top priority**. The pace of both public- and private-financed infrastructure development has not nearly matched the needs in the past five years. Staff's analysis suggests that concession revenues, combined with concessional borrowing, and topped up by public-private partnerships could bridge much of the presently large infrastructure financing gap over the next ten years. This would require improved implementation capacity from the authorities, enhanced donor coordination, and continued involvement of the private sector. Infrastructure scaling up could in turn stimulate production along growth corridors if other impediments are reduced.

58. **Financial sector development continues**. The ongoing work on strengthening the legal and regulatory framework needs to be completed, with the focus of attention shifting from banks to the nonbank sector. Renewed impetus for developing the payment system is urgently needed as little concrete progress has been made in the past two years. Creative solutions are required to improve access to the financial sector. Cross-country experience suggests that mobile banking shows a lot of promise for rural areas, as do some interventions in microfinance and structured small and medium enterprise finance.

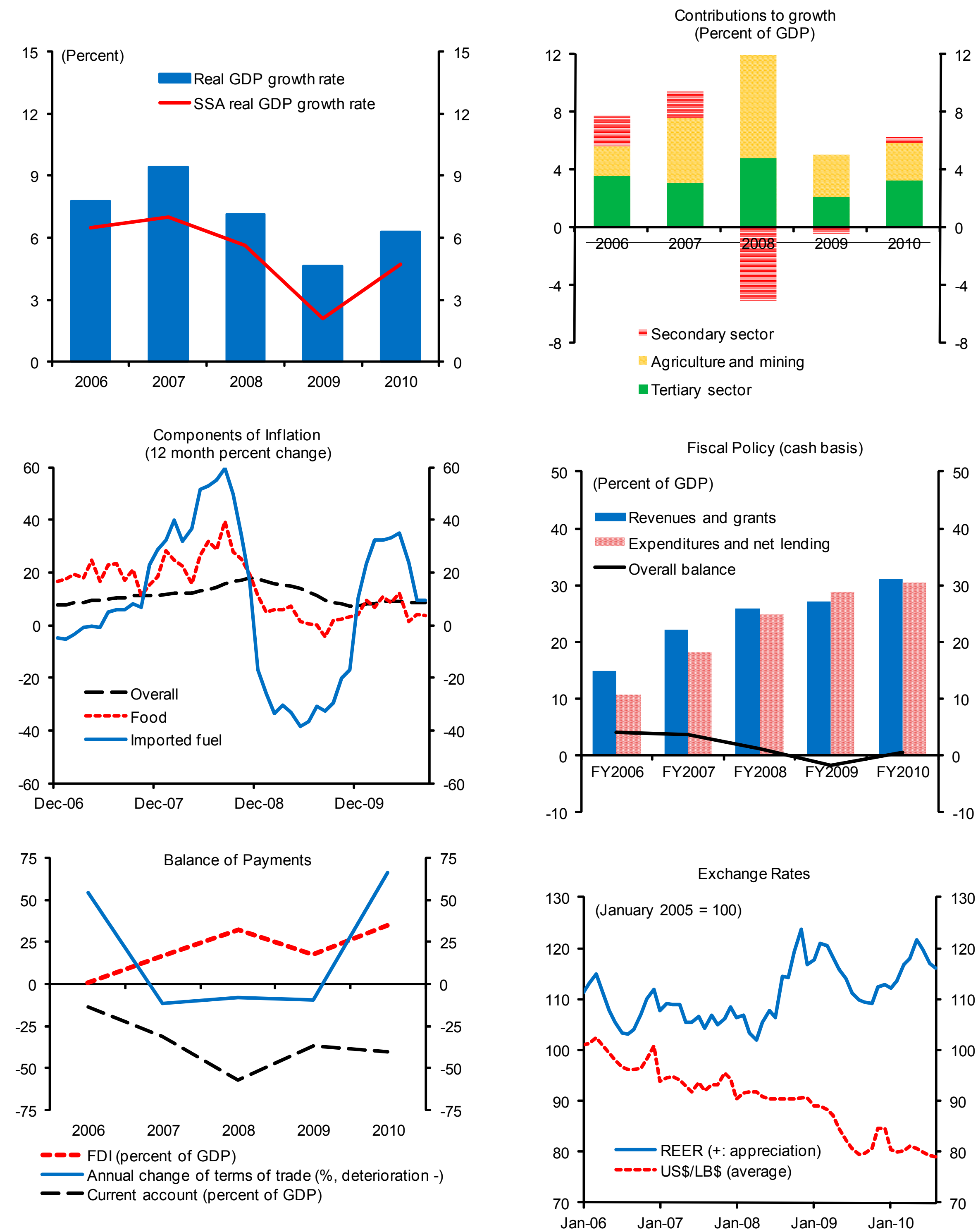
59. **Program performance continues to be generally good**. All performance criteria through end-June 2010 were observed. Delays in the completion of structural benchmarks were relatively minor. While the preparation of the FY2011 budget was exemplary, the four month delay in legislative approval and executive finalization of the estimates undermined the effectiveness of the extensive investment in budget preparation. All sovereign arrears to private creditors have been cleared; the financing assurances review is no longer applicable.

60. **The authorities have developed a good track record at coping with unforeseen developments, most notably the adverse income and investment effects of the global financial crisis**. The principal risks, aside from adverse external developments, are loss of reform momentum, leading to unbalanced growth and unmet development objectives. However, staff are confident that these risks could be mitigated in the context of Liberia's

vision for its future by maintaining a strict focus on removing the multiform barriers to growth outside the enclave sectors.

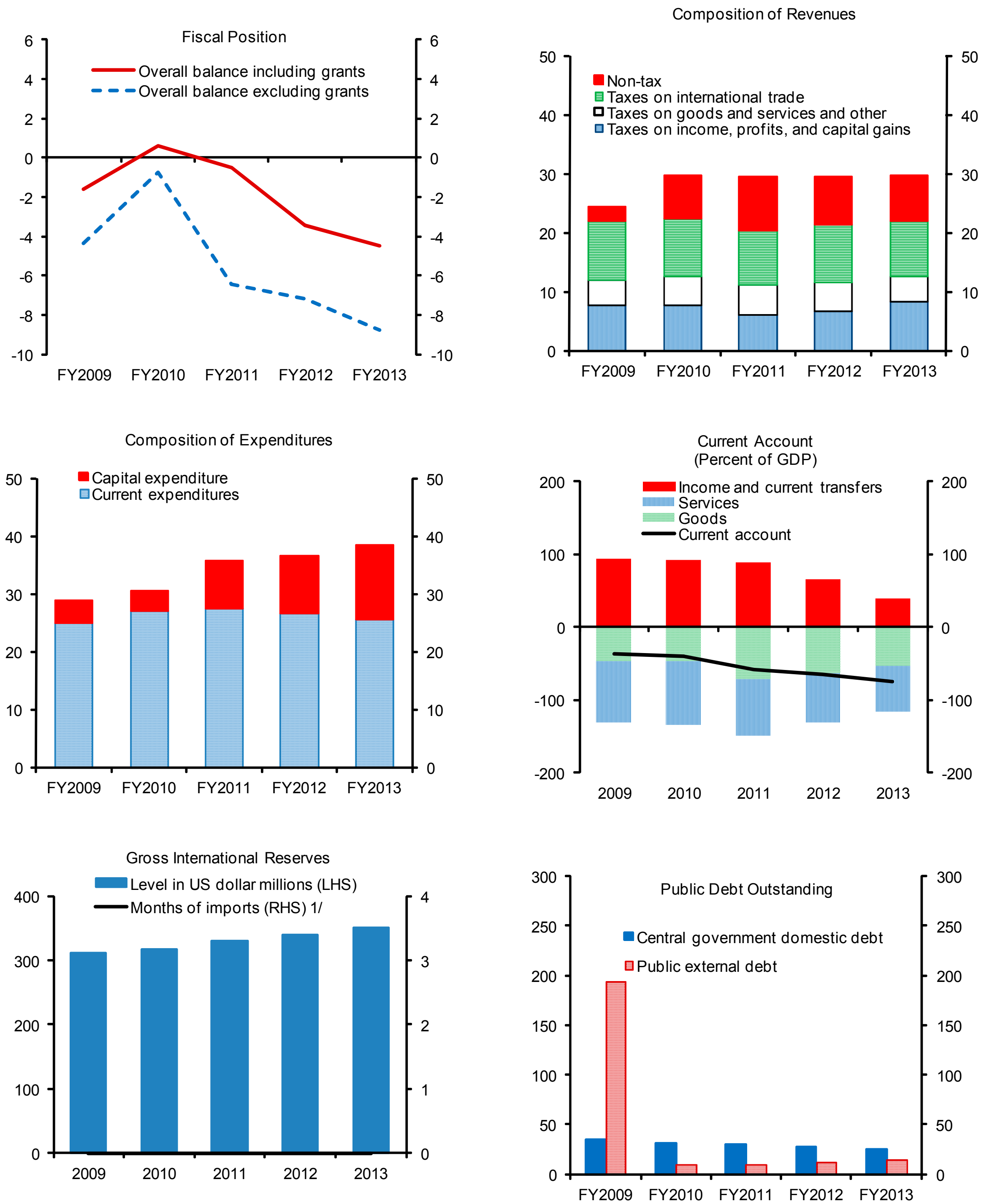
61. **Staff recommend completion of the fifth review under the ECF arrangement**, and support the sixth disbursement under the arrangement on the basis of the continued progress achieved to date and the authorities' demonstrated commitment to achieving key program objectives. It is proposed that the next Article IV consultation with Liberia take place in accordance with the 2010 Decision on consultation cycles.

Figure 1. Liberia: Recent Economic Developments, 2006–10



Sources: Liberian authorities; and IMF staff estimates.

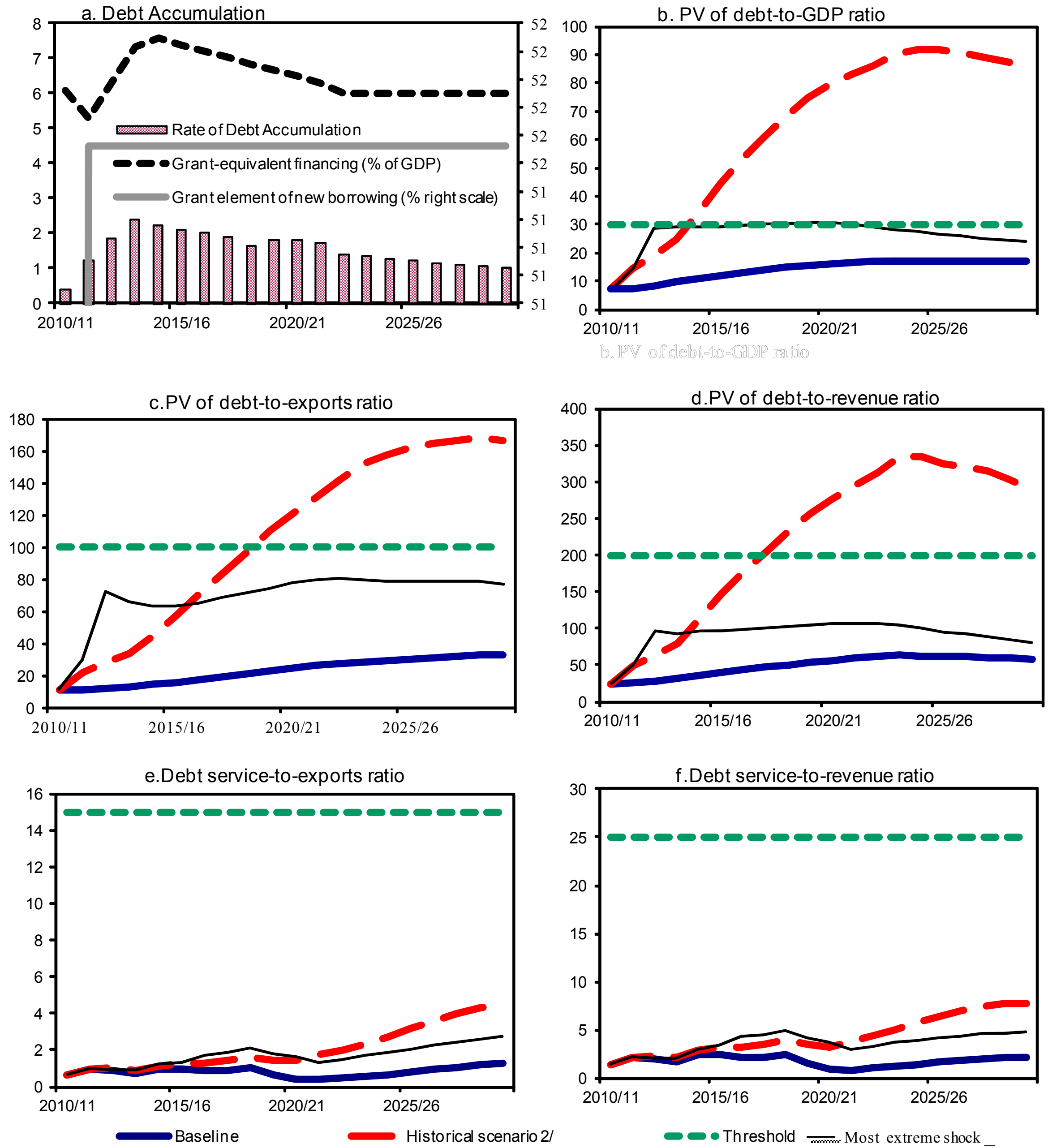
Figure 2. Liberia: Medium-term Fiscal and Balance of Payments Outlook, FY2009–13
(Percent of GDP)



Note: 1. Excluding UNMIL imports

1/ Fiscal year ends in June.
Sources: Liberian authorities; and IMF staff estimates and projections.

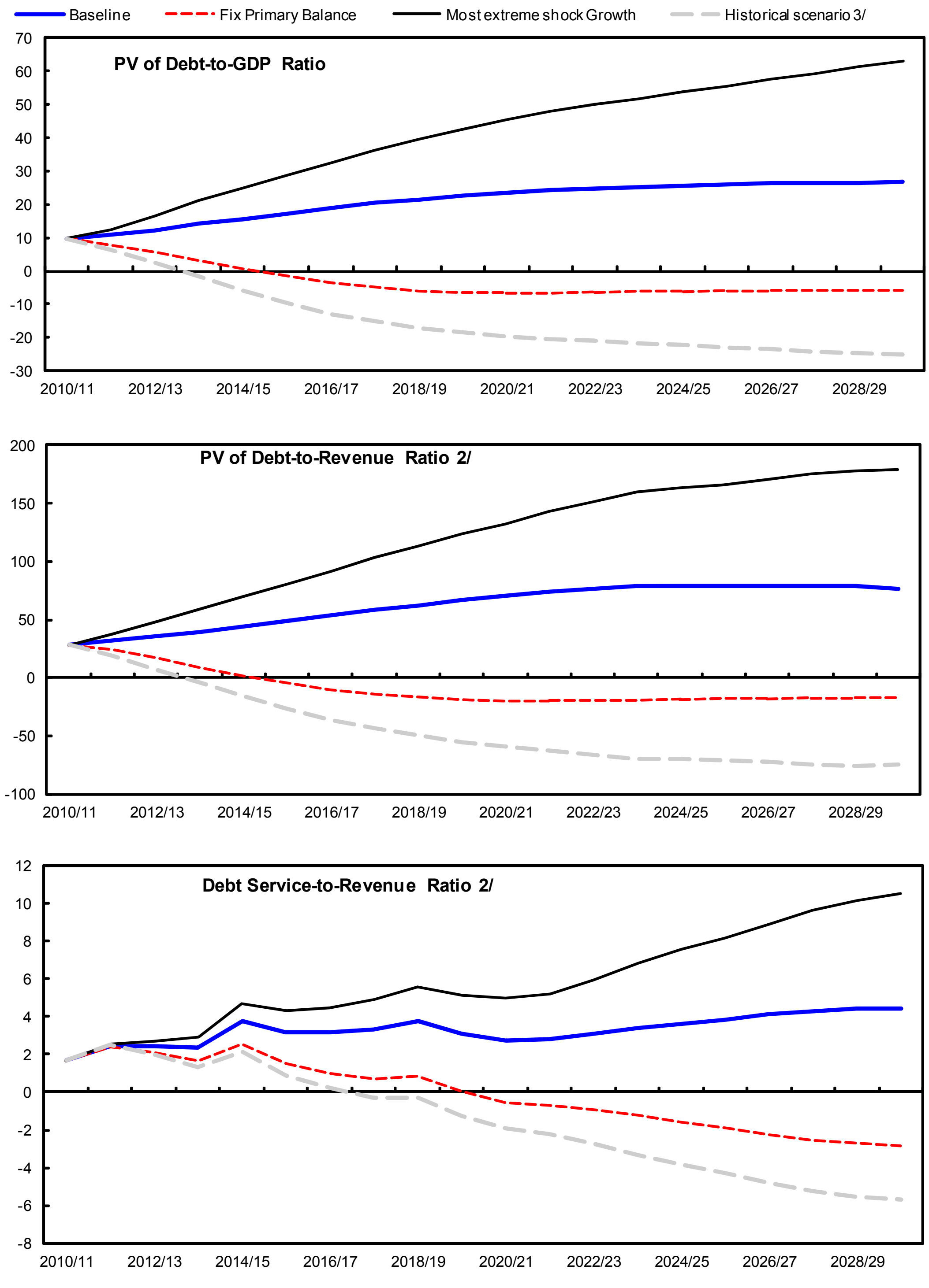
Figure 3a. Liberia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010/11-2030/31 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019/20. In figures b, d, e, and f it corresponds to loans on less favorable terms; in c. to export values growing at historical average minus one standard deviation.
2/ Given the lack of reliability of historical data, the DSA uses only FY 2004/05 to FY2007/08 data while excluding FY2008/09 to minimize the impact of the global crisis on the limited sample. The historical scenario breaches the PV debt to GDP threshold, but staff does not consider this a reliable indicator of potential debt distress, as it results mainly from the high current account deficits in the period following the return of political stability.

Figure 3b. Liberia: Indicators of Public Debt Under Alternative Scenarios, 2010/11-2030/31 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2020/21.
2/ Revenues are defined inclusive of grants.
3/ Given the lack of reliability of historical data, the DSA uses only FY 2004/05 to FY2007/08 data while excluding FY2008/09 to minimize the impact of the global crisis on the limited sample. The historical scenario breaches the PV debt to GDP threshold, but staff does not consider this a reliable indicator of potential debt distress, as it results mainly from the high current account deficits in the period following the return of political stability.

Table 1. Liberia: Selected Economic and Financial Indicators, 2008–12

	2008	2009	2010		2011		2012
		Prel.	4th Review 1/	Proj.	4th Review 1/	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)						
National account and prices							
GDP at constant prices	7.1	4.6	6.3	6.3	8.5	8.8	11.7
GDP deflator (US dollars)	7.3	-1.2	2.6	4.5	-0.2	-0.8	4.6
Nominal GDP (millions of US dollars)	850.7	879.0	952.9	976.6	1,032.2	1,054.1	1,231.2
Nominal GDP per capita (US dollars)	243.2	239.6	249.1	255.3	260.3	265.8	300.8
Consumer prices (average)	17.5	7.4	7.6	7.4	3.9	4.2	4.8
Consumer prices (end of period)	9.4	9.7	4.8	4.7	4.7	4.6	5.0
Consumer prices (US dollar denominated, year-on-year)	5.1	2.4	0.3	0.7	2.0	0.8	1.1
External sector							
Exports, f.o.b.	22.2	-39.7	62.3	34.8	25.5	52.5	30.9
Imports, f.o.b	42.2	-20.6	22.6	16.8	39.5	60.9	11.2
Terms of trade (deterioration -) 2/	-8.1	-9.4	41.6	66.1	-22.2	-20.6	-18.2
Average exchange rate (local currency per U.S. dollar)	63.2	68.3	…	…	…	…	…
Nominal effective exchange rate change (depreciation -)	-7.7	-2.9	…	…	…	…	…
Real effective exchange rate (depreciation -)	3.4	3.4	…	…	…	…	…
Import coverage of reserves (months)	0.6	2.3	2.0	1.9	1.8	1.6	1.7
Import coverage of reserves without UNMIL imports (months)	0.8	3.2	2.6	2.6	2.3	2.0	2.0
Gross official reserves (millions of US dollars)	107.8	312.2	334.2	317.1	351.5	329.8	339.9
Central government budget 3/							
Total revenue and grants	39.5	13.5	23.8	22.6	17.7	24.5	5.6
Of which: total revenue 5/	36.7	5.2	31.5	30.2	2.0	8.5	12.5
Total expenditure and net lending	60.2	26.3	15.6	13.4	17.6	28.9	14.9
Of which: current expenditure	62.9	24.2	10.4	16.4	10.0	11.4	9.1
capital expenditure	43.4	41.5	48.8	-6.2	53.6	167.4	33.8
	(Annual percentage change; beginning period stock of broad money, unless otherwise indicated)						
Money and credit							
Net foreign assets	2.7	-20.9	253.9	247.0	5.9	5.5	7.9
Net domestic assets	38.8	55.5	-228.4	-232.4	-2.5	3.4	10.5
Net claims on central government	10.3	38.8	-251.7	-251.2	-0.4	-0.5	-0.9
Claims on nongovernment	16.5	24.0	1.2	2.3	4.5	5.4	9.7
Other items (net)	12.0	-7.4	9.6	10.7	4.5	4.1	1.8
Broad money (M2) 4/	45.7	37.7	12.6	1.9	10.2	9.6	17.6
Reserve money (annual percentage change)	13.1	12.4	24.3	-3.2	16.1	15.0	19.0
Velocity (GDP-to-M2)	3.0	2.5	2.5	2.8	2.5	2.9	3.0
Money multiplier (M2/M0)	4.4	5.2	4.6	5.4	4.4	5.2	5.1
	(Percent of GDP)						
External sector							
Current account balance							
(including official grants)	-57.3	-36.8	-39.9	-40.4	-55.8	-59.2	-64.9
(excluding official grants)	-185.3	-148.2	-152.0	-152.0	-149.3	-149.3	-131.5
Trade balance	-53.4	-46.6	-46.3	-46.1	-63.0	-70.4	-62.0
Exports, f.o.b.	29.9	17.4	26.1	21.2	30.3	29.9	33.5
Imports, f.o.b	-83.3	-64.0	-72.4	-67.3	-93.3	-100.3	-95.5
Central government budget 3/							
Total revenue and grants	26.0	27.2	31.8	31.1	34.5	35.3	33.1
Of which: total revenue 5/	25.2	24.4	30.4	29.7	28.5	29.4	29.4
Total expenditure and net lending	24.8	28.8	31.5	30.4	34.1	35.8	36.6
Of which: current expenditure	21.8	24.9	26.0	27.0	26.3	27.5	26.6
capital expenditure	3.0	3.9	5.5	3.4	7.8	8.4	9.9
Overall fiscal balance (including grants)	1.2	-1.6	0.4	0.6	0.4	-0.5	-3.4
Overall fiscal balance (excluding grants)	0.5	-4.4	-1.1	-0.8	-5.5	-6.4	-7.2
Public external debt	376.6	190.9	15.6	8.9	15.6	9.6	11.2
Central government domestic debt	39.4	34.3	32.2	31.5	28.9	29.7	27.4

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

1/ IMF Country Report No. 10/193.

2/ The base year is updated from 1997 to 2005 (2005 = 100).

3/ Fiscal year ending in June on a cash basis (debt service payments shown after all debt relief).

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

5/ Excluding additional tax revenue measures to close fiscal gaps for FY2011.

Table 2. Liberia: Balance of Payments, 2008–12
(Millions of US dollars, unless otherwise indicated)

	2008	2009	2010	2011	2012
				Proj.	
Trade balance	-455	-409	-450	-742	-764
Exports, f.o.b.	254	153	207	315	413
Of which: rubber	225	93	136	138	120
Imports, f.o.b	-709	-563	-657	-1,057	-1,176
Services (net)	-1,007	-740	-847	-817	-849
Of which: UNMIL services 1/	-488	-455	-455	-418	-342
Income (net)	-160	-145	-179	-117	-152
Of which: public interest payments due 2/	-90	-111	-108	-1	-1
Of which: IMF	-1	1	0	0	0
Current transfers	1,134	970	1,082	1,052	966
Donor transfers (net)	1,087	920	1,019	967	878
Of which: UNMIL transfers	646	600	600	550	450
Private transfers (net)	47	50	63	85	88
Current account balance	-488	-324	-395	-624	-799
Current account balance, excluding grants	-1,575	-1,244	-1,414	-1,592	-1,677
Capital and financial account (net)	370	371	1,136	635	819
Capital account (HIPC debt relief) 3/	1,197	1,526	1,439	0	0
Financial account	-827	-1,156	-303	635	819
Foreign direct investment (net)	272	153	340	602	738
Portfolio investment (net)	0	0	0	0	0
Other investment (net)	-1,099	-1,309	-644	33	81
Official financing: Medium and long-term (net)	-1,210	-1,373	-670	23	37
SDR allocation	0	163	0	0	0
Disbursements	0	0	3	27	43
Amortization 3/	-1,210	-1,536	-673	-4	-6
Private financing (net) 4/	111	64	26	10	44
Errors and omissions	43	20	0	0	0
Overall balance	-75	67	741	11	20
Financing	75	-67	-741	-11	-20
Change in net foreign assets (increase -) 5/	-15	-178	-849	-11	-20
Of which: Net use of Fund credit and loans 3/	22	18	-850	7	0
Disbursements	882	18	13	7	0
Repayments	-860	0	-863	0	0
Exceptional financing	90	111	108	0	0
Debt forgiveness	1,197	1,526	1,439	0	0
Change in arrears 6/	-1,197	-1,526	-1,439	0	0
Debt rescheduling plus HIPC interim debt relief 7/	90	111	108	0	0
Financing gap	0	0	0	0	0
Memorandum items:					
Current account balance (percent of GDP)					
Including grants	-57.3	-36.8	-40.4	-59.2	-64.9
Excluding grants	-185.1	-147.4	-148.1	-146.2	-121.7
Trade Balance (percent of GDP)	-53.4	-46.6	-46.1	-70.4	-62.0
Donor transfers (net, percent of GDP)	127.8	104.7	104.4	91.8	71.3
Public sector external debt (medium and long-term)					
Debt outstanding, including arrears	3,203	1,678	87	101	138
(percent of GDP)	376.6	190.9	8.9	9.6	11.2
Debt service charges (after relief)	13.6	0.0	2.1	5.7	7.2
(percent of GDP)	1.6	0.0	0.2	0.5	0.6
Terms of trade (2000=100)	133.5	121.0	200.9	159.4	130.4
Gross official reserves	107.8	312.2	317.1	329.8	339.9
Gross official reserves (months of imports) 8/	0.8	3.2	2.6	2.0	2.0
Gross official reserves (months of imports) 9/	0.9	3.4	3.1	2.6	2.6

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

1/ Net of estimated value of goods and services purchased by UNMIL (and its staff) in Liberia.
2/ From 2007, interest charged on debt stock after application of traditional debt relief mechanisms.
3/ Assumes debt relief at the HIPC completion point in 2010.
4/ Includes short-term trade credits and private sector operating balances abroad.
5/ Includes SDR assets and excludes SDR liabilities for US$ 163.2 million.
6/ Includes debt forgiveness from multilateral creditors and Paris Club creditors .
7/ Includes deferred debt service payments in the interim period.
8/ Excludes UNMIL service imports
9/ Excludes UNMIL services and FDI-related imports

Table3a. Liberia: Monetary Survey, 2008–12
(Millions of US dollar; unless otherwise indicated)

	2008	2009	2010	2011	2012
				Proj.	
			(Central Bank Survey)		
Net foreign assets	-764.2	-749.1	100.0	111.0	131.3
Net domestic assets	836.7	823.0	-30.9	-34.5	-43.6
Net claims on government	1,068.3	1,067.4	191.7	182.8	172.9
Claims on other public sector 1/	0.0	0.0	0.0	0.0	0.0
Claims on private sector	1.8	1.8	1.9	2.1	2.5
Claims on commercial banks	0.0	0.0	0.0	0.0	0.0
Other items (net) 2/	-233.4	-246.1	-224.5	-219.3	-218.9
Base money	72.4	73.9	69.1	76.5	87.7
			(Monetary Survey)		
Net foreign assets	-674.0	-664.3	183.9	194.8	215.2
Of which: Fund credit and overdue charges	-858.0	-891.2	-53.1	-59.9	-59.9
CBL's gross foreign reserves 3/	139.0	372.5	379.1	394.2	412.3
government US$-denominated deposits at CBL	36.8	45.5	47.1	45.3	43.6
commercial banks' US$-denominated deposits at CBL	52.8	60.2	61.9	64.3	72.4
CBL's net foreign exchange position 3/	49.5	266.7	270.1	284.6	296.3
Net domestic assets	935.2	988.5	178.2	182.5	212.3
Net domestic credit	1,193.4	1,241.3	386.7	369.7	386.4
Net claims on government	1,076.0	1,074.3	198.5	189.3	179.1
Of which: IMF credit and overdue charges	836.4	851.3	0.0	0.0	0.0
Claims on nongovernment	117.4	167.0	169.0	180.4	207.3
Claims on private sector	103.8	136.5	151.7	163.7	191.3
Claims on public enterprises	1.0	17.9	17.3	16.7	16.1
Claims on nonbank financial institutions	0.0	0.0	0.0	0.0	0.0
Other Items (Net)	-258.1	-252.9	-208.5	-187.2	-174.2
Monetary aggregates					
Monetary Base (M0)	63.3	67.1	62.7	69.4	79.6
Currency in circulation	56.8	59.0	54.9	61.1	69.8
Required reserves	6.5	8.1	7.8	8.4	9.8
Commercial bank deposits	207.7	284.7	285.9	298.3	337.3
Total demand deposits	142.4	201.3	193.6	201.7	109.7
L$-denominated deposits	12.1	12.3	13.7	14.8	27.2
US$-denominated deposits	130.2	188.9	180.0	174.9	82.5
Time, savings and other deposits	65.4	83.5	92.2	96.7	227.5
L$-denominated deposits	15.5	19.4	21.6	23.3	17.3
US$-denominated deposits	49.9	64.0	70.6	66.9	210.3
Broad money (M2)	276.9	346.0	340.8	359.4	407.1
L$ component	84.5	90.8	90.2	99.1	114.3
US$ component	192.4	255.2	250.6	260.2	292.8
Memorandum items:					
Broad money (annual change)	42.3	25.0	-1.5	5.4	13.3
L$ component as percent of beginning period broad money	5.9	2.3	-0.2	2.6	4.2
US$ component as percent of beginning period broad money	36.4	22.7	-1.3	2.8	9.1
Reserve money (annual change)	10.5	2.1	-6.4	10.7	14.6
Base money (annual change)	8.8	6.0	-6.6	10.7	14.7
Credit to government (annual change)	-0.5	-0.2	-81.5	-4.6	-5.4
Credit to private sector (annual change)	44.1	31.5	11.1	7.9	16.8
Velocity (GDP-to-M2)	3.1	2.5	2.9	2.9	3.0
Money multiplier (M2/M0)	4.4	5.2	5.4	5.2	5.1
CBL's gross official foreign reserves 3/	107.8	312.2	317.1	329.8	339.9

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

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

Table 3b. Liberia: Monetary Survey, 2008–12
(Millions of Liberian dollar; unless otherwise indicated)

	2008	2009	2010	2011	2012
				Proj.	
			(Central Bank Survey)		
Net foreign assets	-48,911	-52,811	7,298	8,416	10,338
Net domestic assets	53,546	58,022	-2,253	-2,613	-3,433
Net claims on government	68,370	75,249	13,988	13,860	13,610
Claims on other public sector [1/]	0	0	0	0	0
Claims on private sector	2	2	142	159	193
Claims on commercial banks	0	0	0	0	0
Other items (net) [2/]	-14,937	-17,350	-16,383	-16,632	-17,236
Base money	4,635	5,211	5,045	5,803	6,905
			(Monetary Survey)		
Net foreign assets	-43,137	-46,832	13,415	14,774	16,939
Of which: Fund credit and overdue charges	-54,910	-62,828	-3,874	-4,543	-4,719
CBL's gross foreign reserves [3/]	8,897	12,057	27,658	29,891	32,459
government US$-denominated deposits at CBL	2,353	3,207	3,434	3,434	3,434
commercial banks' US$-denominated deposits at CBL	3,378	4,247	4,519	4,878	5,698
CBL's net foreign exchange position [3/]	3,166	4,603	19,705	21,579	23,327
Net domestic assets	59,855	69,687	13,000	13,837	16,710
Net domestic credit	76,376	87,513	28,215	28,033	30,422
Net claims on government	68,862	75,740	14,479	14,351	14,101
Of which: IMF credit and overdue charges	53,530	60,017	0	0	0
Claims on nongovernment	7,514	11,774	12,332	13,681	16,321
Claims on private sector	104	137	11,068	12,417	15,057
Claims on public enterprises	64	1,264	1,264	1,264	1,264
Claims on nonbank financial institutions	0	0	0	0	0
Other Items (Net)	-16,521	-17,826	-15,215	-14,196	-13,712
Monetary aggregates					
Monetary Base (M0)	4,051	4,732	4,575	5,265	6,267
Currency in circulation	3,637	4,162	4,009	4,630	5,497
Required reserves	414	570	566	635	770
Commercial bank deposits	13,294	20,073	20,857	22,622	26,551
Total demand deposits	9,111	14,189	14,129	15,293	8,639
L$-denominated deposits	776	868	998	1,120	2,143
US$-denominated deposits	8,335	13,321	13,130	13,382	6,496
Time, savings and other deposits	4,183	5,884	6,728	7,329	17,912
L$-denominated deposits	992	1,370	1,575	1,768	1,358
US$-denominated deposits	3,191	4,514	5,153	5,122	16,554
Broad money (M2)	17,719	24,391	24,866	27,252	32,048
L$ component	5,405	6,400	6,583	7,517	8,999
US$ component	12,314	17,990	18,283	19,735	23,050
Memorandum items:					
Broad money (annual change)	45.7	37.7	1.9	9.6	17.6
L$ component as percent of beginning period broad money	6.9	5.6	0.7	3.8	5.4
US$ component as percent of beginning period broad money	38.8	32.0	1.2	5.8	12.2
Reserve money (annual change)	13.1	12.4	-3.2	15.0	19.0
Base money (annual change)	11.5	16.8	-3.3	15.1	19.0
Credit to government (annual change)	1.9	10.0	-80.9	-0.9	-1.7
Credit to private sector (annual change)	47.6	44.8	15.0	12.2	21.3
Velocity (GDP-to-M2)	3.0	2.5	2.8	2.9	3.0
Money multiplier (M2/M0)	4.4	5.2	5.4	5.2	5.1
Currency/deposits (percent; L$ only)	205.7	185.9	155.7	160.3	157.0
CBL's gross official foreign reserves [3/]	6,917	22,011	23,139	25,013	26,761

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

1/ Include public enterprises and the local government.

2/ Including valuation.

Table 4a. Liberia: Fiscal Operations of the Central Government, FY2009–13 1/
(Millions of US dollars)

	FY2009	FY2010		FY2011		FY2012	FY2013
		4th Review	Proj	4th Review	Proj.	Proj.	
Total revenue and grants	234.9	290.9	288.0	342.4	358.6	378.8	439.5
Revenue	211.3	277.9	275.0	283.3	298.5	335.9	384.5
Tax Revenue	190.0	204.3	207.8	203.6	205.1	242.7	284.5
Taxes on income, profits, and capital gains	65.8	68.1	70.2	57.6	60.6	76.5	106.2
Taxes on goods and services	33.7	42.4	39.2	48.3	48.5	50.9	53.2
Taxes on international trade	87.9	87.5	91.7	94.3	92.7	111.8	121.4
Other taxes	2.6	6.3	6.7	3.4	3.4	3.5	3.7
Non-tax	21.3	73.5	67.3	79.8	93.3	93.2	100.0
Grants	23.6	13.0	13.0	59.1	60.2	42.9	55.0
Expenditures and net lending	248.9	287.6	282.2	338.4	363.7	417.8	497.5
Current expenditures	215.1	237.4	250.5	261.2	278.9	304.3	331.0
Wages and salaries	91.4	114.0	113.9	134.6	140.3	152.0	162.8
Goods and services	75.3	74.5	76.7	77.8	82.2	89.0	95.4
Subsides and transfers	40.9	48.1	55.7	44.5	51.9	56.2	63.1
Interest 1/	7.5	0.8	4.2	4.3	4.5	7.1	9.8
Capital expenditure	33.8	50.2	31.7	77.2	84.8	113.4	166.5
Foreign loan financed 2/	0.0	0.0	0.0	0.0	0.0	34.3	51.7
Domestic and grant financed	33.8	50.2	31.7	77.2	84.8	79.1	114.8
Overall balance 3/							
Including grants	-14.0	3.2	5.9	4.0	-5.0	-39.0	-58.0
Excluding grants	-37.6	-9.8	-7.1	-55.1	-65.2	-81.9	-113.0
Identified financing	14.0	-3.2	-5.9	-4.0	5.0	39.0	58.0
External financing (net)	-3.7	-3.5	-3.3	-2.7	-3.0	28.4	45.8
Loans	0.0	0.0	0.0	0.0	0.0	34.3	51.7
Amortization (-)	-3.7	-3.5	-3.3	-2.7	-3.0	-5.9	-5.9
Domestic Borrowing	17.7	0.3	-2.6	-1.3	8.1	10.6	12.2
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Total public external debt	1,677.6	149.0	87.1	161.5	101.3	138.4	193.7
Central government domestic debt	296.4	293.7	292.0	287.3	302.0	313.1	325.2
o/w Foreign currency denominated	282.7	280.4	280.4	274.5	278.9	278.3	277.6
Basic balance 4/	19.8	53.5	37.6	81.1	79.7	74.4	108.5
Current balance 5/	-3.9	40.5	24.6	22.1	19.5	31.5	53.5
Primary balance, including grants	-6.5	4.0	10.1	8.3	-0.5	-31.9	-48.2
Fiscal year nominal GDP	864.8	913.5	927.8	992.6	1,015.4	1,142.7	1,293.0

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

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

2/ Approximately 50 percent of on-budget loan-financed capital expenditure substitutes for hitherto off-budget grant-financed expenditure.

3/ Through fiscal year 2009/10, budgets are assumed to be balanced on a cash basis. Non-zero fiscal balances reported up to 2009/10 are due to some budget expenditures (e.g., payments of arrears, amortization) being reported as financing items; and to the drawdown of government deposits accumulated in prior years.

4/ Basic balance is defined as (total revenue and grants minus project grants) minus (total expenditure minus foreign and domestically financed investment spending).

5/ Current revenue less current expenditure.

Table 4b. Liberia: Fiscal Operations of the Central Government, FY2009–13 1/
(Percent of GDP)

	FY2009	FY2010		FY2011		FY2012	FY2013
		4th Review	Proj.	4th Review	Proj.	Proj.	
Total revenue and grants	27.2	31.8	31.0	34.5	35.3	33.1	34.0
Revenue	24.4	30.4	29.6	28.5	29.4	29.4	29.7
Tax Revenue	22.0	22.4	22.4	20.5	20.2	21.2	22.0
Taxes on income, profits, and capital gains	7.6	7.5	7.6	5.8	6.0	6.7	8.2
Taxes on goods and services	3.9	4.6	4.2	4.9	4.8	4.5	4.1
Taxes on international trade	10.2	9.6	9.9	9.5	9.1	9.8	9.4
Other taxes	0.3	0.7	0.7	0.3	0.3	0.3	0.3
Non-tax	2.5	8.0	7.3	8.0	9.2	8.2	7.7
Grants	2.7	1.4	1.4	5.9	5.9	3.8	4.3
Expenditures and net lending	28.8	31.5	30.4	34.1	35.8	36.6	38.5
Current expenditures	24.9	26.0	27.0	26.3	27.5	26.6	25.6
Wages and salaries	10.6	12.5	12.3	13.6	13.8	13.3	12.6
Goods and services	8.7	8.2	8.3	7.8	8.1	7.8	7.4
Subsides and transfers	4.7	5.3	6.0	4.5	5.1	4.9	4.9
Interest 1/	0.9	0.1	0.5	0.4	0.4	0.6	0.8
Capital expenditure	3.9	5.5	3.4	7.8	8.3	9.9	12.9
Foreign loan financed 2/	0.0	0.0	0.0	0.0	0.0	3.0	4.0
Domestic and grant financed	3.9	5.5	3.4	7.8	8.3	6.9	8.9
Overall balance 3/							
Including grants	-1.6	0.4	0.6	0.4	-0.5	-3.4	-4.5
Excluding grants	-4.4	-1.1	-0.8	-5.5	-6.4	-7.2	-8.7
Identified financing	1.6	-0.4	-0.6	-0.4	0.5	3.4	4.5
External financing (net)	-0.4	-0.4	-0.4	-0.3	-0.3	2.5	3.5
Loans	0.0	0.0	0.0	0.0	0.0	3.0	4.0
Amortization (-)	-0.4	-0.4	-0.4	-0.3	-0.3	-0.5	-0.5
Domestic Borrowing	2.0	0.0	-0.3	-0.1	0.8	0.9	0.9
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Total public external debt	194.0	16.3	9.4	16.3	10.0	12.1	15.0
Central government domestic debt	34.3	32.2	31.5	28.9	29.7	27.4	25.1
o/w Foreign currency denominated	32.7	30.7	30.2	27.7	27.5	24.4	21.5
Basic balance 4/	2.3	5.9	4.0	8.2	7.9	6.5	8.4
Current balance 5/	-0.4	4.4	2.6	2.2	1.9	2.8	4.1
Primary balance, including grants	-0.7	0.4	1.1	0.8	0.0	-2.8	-3.7
Fiscal year nominal GDP (millions of US dollars)	864.8	913.5	927.8	992.6	1,015.4	1,142.7	1,293.0

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

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

2/ Approximately 50 percent of on-budget loan-financed capital expenditure substitutes for hitherto off-budget grant-financed expenditure.

3/ Through fiscal year 2009/10, budgets are assumed to be balanced on a cash basis. Non-zero fiscal balances reported up to 2009/10 are due to some budget expenditures (e.g., payments of arrears, amortization) being reported as financing items; and to the drawdown of government deposits accumulated in prior years.

4/ Basic balance is defined as (total revenue and grants minus project grants) minus (total expenditure minus foreign and domestically financed investment spending).

5/ Current revenue less current expenditure.

Table 5. Liberia: Medium-Term Outlook, 2009–15

	2009	2010		2011		2012	2013	2014	2015
		4th Rev	Proj.	4th Rev	Proj.		Proj.		
	(Annual percentage change)								
National income prices									
Real GDP	4.6	6.3	6.3	8.5	8.8	11.7	8.4	7.1	7.0
Agriculture & fisheries	6.4	3.9	3.5	3.9	4.3	4.1	4.3	4.5	4.6
Forestry	1.4	13.7	13.3	13.7	13.7	4.4	4.4	7.0	0.7
Mining & panning	6.8	14.7	16.1	112.9	163.0	156.1	41.6	19.1	23.5
Manufacturing	-3.8	2.9	2.9	4.5	4.5	4.2	3.9	4.0	4.0
Services	6.9	6.7	7.3	7.3	4.6	7.0	5.7	5.6	5.5
Real GDP excl. mining	4.6	6.1	6.3	6.5	6.6	6.5	6.0	5.8	4.3
Prices									
GDP deflator	-1.2	2.6	4.5	-0.2	-0.8	4.6	1.5	1.7	1.9
Consumer prices (annual average)	7.4	7.6	7.4	3.9	4.2	4.8	5.0	5.0	5.0
Consumer prices (end of period)	9.7	4.8	4.7	4.7	4.6	5.0	5.0	5.0	5.0
Real GDP per capita (US dollar)	144.9	147.7	147.7	154.7	155.0	167.7	176.6	183.8	191.0
Population (millions)	3.7	3.8	3.8	4.0	4.0	4.1	4.2	4.3	4.5
	(Percent share)								
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture & fisheries	52.5	51.0	50.8	46.2	46.5	40.4	37.9	36.7	35.7
Forestry	10.7	12.3	11.9	13.8	13.5	12.3	12.0	12.3	11.5
Mining & panning	0.9	1.5	1.1	4.9	6.6	16.5	20.2	21.6	23.9
Manufacturing	5.6	5.5	5.3	5.3	5.2	4.7	4.5	4.3	4.2
Services	30.3	29.7	30.9	29.8	28.3	26.2	25.5	25.1	24.7
	(Percent of GDP, fiscal year)								
Central government operations									
Total revenue and grants	27.2	31.8	31.0	34.5	35.3	33.1	34.0	35.7	35.4
Total revenue	24.4	30.4	29.6	28.5	29.4	29.4	29.7	30.9	30.4
Grants	2.7	1.4	1.4	5.9	5.9	3.8	4.3	4.8	5.0
Total expenditure and net lending	28.8	31.5	30.4	34.1	35.8	36.6	38.5	41.2	40.7
Current expenditure	24.9	26.0	27.0	26.3	27.5	26.6	25.6	25.5	25.5
Capital expenditure	3.9	5.5	3.4	7.8	8.3	9.9	12.9	15.8	15.2
Overall fiscal balance, including grants	-1.6	0.4	0.6	0.4	-0.5	-3.4	-4.5	-5.5	-5.3
Overall fiscal balance, excluding grants	-4.4	-1.1	-0.8	-5.5	-6.4	-7.2	-8.7	-10.3	-10.3
Public external debt	190.9	15.6	8.9	15.6	9.6	11.2	14.3	17.6	20.4
Central government domestic debt	34.3	32.2	31.5	28.9	29.7	27.4	25.1	23.7	22.7
	(Percent, unless otherwise indicated)								
M2 / GDP	39.4	39.4	34.9	39.0	34.1	33.1	32.4	31.8	31.2
Private sector credit / GDP	15.5	15.8	15.7	15.8	16.1	16.7	17.2	17.5	18.0
Velocity (GDP-to-M2)	2.5	2.5	2.9	2.6	2.9	3.0	3.1	3.1	3.2
Money multiplier (M2/M0)	5.2	4.6	5.4	4.4	5.2	5.1	4.9	4.7	4.6
	(Percent of GDP, unless otherwise indicated)								
External sector									
Current account balance, including grants	-36.8	-39.9	-40.4	-55.8	-59.2	-64.9	-74.9	-20.9	-13.8
Current account balance, excluding grants	-148.2	-152.0	-152.0	-149.3	-149.3	-131.5	-97.4	-68.0	-62.6
Trade balance	-46.6	-46.3	-46.1	-63.0	-70.4	-62.0	-53.3	-9.3	-2.0
Exports	17.4	26.1	21.2	30.3	29.9	33.5	45.4	54.6	59.6
Imports	-64.0	-72.4	-67.3	-93.3	-100.3	-95.5	-98.8	-64.0	-61.6
Grants (donor transfers, net)	104.7	111.9	104.4	93.4	91.8	71.3	58.3	47.5	35.0
Gross official reserves (millions of US dollars)	312.2	334.2	317.1	351.5	329.8	339.9	349.9	359.7	369.4
Months of imports of goods and services [1]	3.2	2.6	2.6	2.3	2.0	2.0	1.9	2.6	2.6
Months of imports of goods and services [2]	3.4	3.1	3.1	2.9	2.6	2.6	2.5	2.9	2.9

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

1/ Excludes UNMIL service imports

2/ Excludes UNMIL service and FDI-related imports

Table 6. Liberia: Millennium Development Goals

	1990	1995	2000	2009
General Indicators				
Population (millions)	2.1	2.1	3.1	4.0
Gross national income ($ billions)	0.6	0.3	0.4	0.9
GNI per capita ($)	280.0	110.0	130.0	160.0
Adult literacy rate (percent of people of ages 15 and over)	...	41.0	...	...
Total fertility rate (births for women)	6.9	6.8	6.8	6.0
Life expectancy at birth (years)	41.0	42.0	43.0	58.0
Merchandise Trade (% of GDP)	...	80.8	47.5	91.9
Goal 1. Eradicate extreme poverty and hunger				
2015 target = halve 1990 $1 a day poverty and malnutrition rates:				
Prevalence of child malnutrition (percent of children under 5)	...	...	22.8	...
Population below minimum level of dietary energy consumption (in percent)	34.0	42.0	...	...
Goal 2. Achieve universal primary education				
2015 target: = net enrollment to 100				
Net primary enrollment ratio (percent of relevant age group)	...	43	...	58
Primary education, teachers	...	...	12,996	22,610
Goal 3. Promote gender equality				
2005 targets = education ratio to 100				
Ratio of girls to boys in primary and secondary education (in percent)	...	...	72.3	89.5
Ratio of young literate females to males (percent of ages 15-24)	...	84	...	114
Share of women employed in the nonagricultural sector (in percent)	...	...	11.4	...
Proportion of seats held by women in national parliament (in percent)	...	6.0	8.0	12.5
Goal 4. Reduce child mortality				
2015 target = Reduce 1990 under 5 mortality by two-thirds				
Under five mortality rate (per 1000)	246.9	253.3	198.2	112.0
Infant mortality rate (per 1000 live births)	165.0	169.3	133.5	79.9
Immunization, measles (percent of children under 12 months)	...	...	63.0	64.0
Goal 5. Improve maternal health				
2015 target: Reduce 1990 maternal mortality by two-thirds				
Maternal mortality ratio (modeled estimate per 100,000 live births)	1,100	1,400	1,100	990
Births attended by skilled health staff (percent of total)	...	...	50.9	...
Goal 6. Combat HIV/AIDS, malaria and other diseases				
2015 target: = halted, and begin to reverse, AIDS, etc.				
Prevalence of HIV, total (percent of ages 15-24)	0.4	1.2	1.4	...
Contraceptive prevalence rate (percent of women of ages 15-49)	...	...	10	...
Incidence of tuberculosis (per 100,000 people)	200	220	240	280
Tuberculosis cases detection rate (in percent)	...	32.7	22.0	46.4
Goal 7. Ensure environmental sustainability				
Targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million dwellers.				
Forest area (percent of total land area)	42.1	39.0	35.9	...
Terrestrial protected areas (% of total surface area)	...	...	...	15.0
CO2 emissions (metric tons per capita)	0.2	0.2	0.2	...
Access to an improved water source (percent of population)	58	61	65	68
Access to improved sanitation (percent of population)	11	13	14	17
Goal 8. Develop a Global Partnership for Development				
Targets: Develop further an open rule-based, predictable, nondiscriminatory trading and financial system. Address the special needs of the least developed countries and landlocked countries and small islands developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with the private sector, make available the benefits of new technologies, specially information and communications.				
Aid per capita (current US$)	75.0	57.0	23.8	101.2
Urban population (% of total)	45.3	50.0	54.3	60.8
Internet users (per 100 people)	...	0.0	0.0	0.5
Mobile and fixed-line telephone subscribers (per 100 people)	0.4	0.2	0.3	19.3

Source: World Development Indicators database, September 2010.

Table 7. Liberia: Fund Credit Position and Projected Payments to the Fund, 2010-2021
(In millions of SDRs unless otherwise indicated)

	2010 7/1-12/31	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Prospective drawings												
ECF	8.88	4.44	-	-	-	-	-	-	-			
Projected debt service to the Fund 1/	-	-	0.08	0.08	2.18	3.77	5.97	6.41	7.88	4.27	2.68	0.44
Repayments and repurchases	-	-	-	-	2.10	3.69	5.91	6.36	7.85	4.26	2.67	0.44
ECF-current	-	-	-	-	2.10	3.69	4.58	4.58	6.07	2.48	0.89	0.00
ECF-projected	-	-	-	-	0.00	0.00	1.33	1.78	1.78	1.78	1.78	0.44
Interests	-	-	0.08	0.08	0.08	0.08	0.06	0.05	0.03	0.01	0.00	0.00
ECF-current	-	-	0.06	0.06	0.06	0.05	0.04	0.03	0.02	0.01	0.00	0.00
EFF	-	-	-	-	-	-	-	-	-	-	-	-
PRGF-projected	-	-	0.02	0.02	0.02	0.02	0.02	0.02	0.01	0.01	0.00	0.00
Charges	-	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
In percent of												
GDP	0.0	0.0	0.0	0.0	0.2	0.4	0.5	0.5	0.6	0.3	0.2	0.0
Gross Official Reserves	0.0	0.0	0.0	0.0	0.9	1.6	2.4	2.5	3.0	1.6	1.0	0.2
Exports of goods and services	0.0	0.0	0.0	0.0	0.3	0.5	0.7	0.7	0.8	0.4	0.3	0.0
Fiscal revenues (excluding grants)	0.0	0.0	0.0	0.0	0.6	1.0	1.5	1.5	1.7	0.9	0.5	0.1
Fund credit outstanding	28.8	33.3	33.3	33.3	31.2	27.5	21.6	15.2	7.3	3.1	0.4	0.0
In percent of												
GDP	4.5	4.8	4.1	3.7	3.2	2.6	1.9	1.2	0.6	0.2	0.0	0.0
Gross Official Reserves	13.8	15.3	14.9	14.5	13.2	11.3	8.6	5.9	2.8	1.1	0.2	0.0
Exports of goods and services	7.9	7.1	6.7	5.4	4.3	3.4	2.4	1.7	0.8	0.3	0.0	0.0
Fiscal revenues (excluding grants)	13.1	13.7	12.4	10.8	9.0	7.4	5.3	3.5	1.6	0.6	0.1	0.0
Quota (under the 12th General Review)	22.3	25.7	25.7	25.7	24.1	21.3	16.7	11.8	5.7	2.4	0.3	0.0

Source: Finance Department and staff estimates.

1/ Data are actual through September 2010 and are projected after that. Effective on January 7, 2010 interest on ECF credit outstanding would be zero in 2010 and 2011. It is assumed the ECF interest rate would be at 0.25% from 2012 and onward.

Table 8. Liberia: Schedule of Disbursements Under the ECF/EFF Arrangements, 2008–11

Amount	Actual Disbursement Date/ Date of Availability	Conditions for Disbursement[1/]
Total : SDR 550.03 million ECF: SDR 207.26 million EFF: SDR 342.77 million	March 14, 2008	Executive Board approval of the three-year ECF/EFF arrangements.
ECF: SDR 7.00 million	December 29, 2008	Executive Board approval of the first review under the three-year ECF arrangement.
ECF: SDR 7.00 million	May 14, 2009	Executive Board approval of the second review under the three-year ECF arrangement.
ECF: SDR 4.44 million	December 21, 2009	Executive Board approval of the third review under the three-year ECF arrangement.
ECF: SDR 4.44 million	July 2, 2010	Executive Board approval of the fourth review under the three-year ECF arrangement.
ECF: SDR 4.44 million	October 31, 2010	Observance of the performance criteria for June 30, 2010, completion of the fifth review of the arrangement.
ECF: SDR 4.44 million	February 15, 2011	Observance of the performance criteria for December 31, 2010, completion of the sixth review of the arrangement.

1/ In addition to the conditions that normally apply to an ECF arrangement.

APPENDIX I. LIBERIA: SUPPLEMENTARY LETTER OF INTENT

Monrovia, November 19, 2010

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

Dear Mr. Strauss-Kahn:

The attached Supplementary Memorandum of Economic and Financial Policies (MEFP) outlines the implementation of Liberia's economic program supported by the Extended Credit Facility (ECF) through September 2010, and recent economic policy actions and commitments. It supplements the Memorandum of Economic and Financial Policies of June 7, 2010. On the basis of our performance so far, and on the strength of the policies set forth, we request that the fifth review under the ECF arrangement be completed and the sixth disbursement in the amount of SDR 4.44 million be approved.

We believe that our policies are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. We will continue to consult closely with Fund staff as detailed in our letter of December 3, 2008. Maintaining our policy of openness and transparency, we consent to the publication on the IMF external website of this letter, the accompanying Supplementary Memorandum of Economic and Financial Policies, and the related Staff Report for the Article IV Consultation and Fifth Review under the ECF.

Sincerely yours,

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

Attachments

ATTACHMENT I. LIBERIA: SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2010

1. **Economic developments are encouraging and should support a continued acceleration of growth over coming years, together with a pick-up in employment**. After a slowdown in 2009, economic activity is strengthening in 2010 with subdued price inflation. Real GDP growth should rise above 6 percent from 4½ percent in 2009. Exports have rebounded on account of rising rubber production and prices. Foreign direct investment commitments are up sharply. So far this year we have ratified agreements for: two more iron ore mines (bringing the number of ratified iron ore concessions to four); a second large-scale palm oil plantation; and the rehabilitation of the Port of Monrovia. In addition, a major multinational oil company is joining other companies in conducting offshore oil exploration.

2. **In September, the Legislature approved several Acts that will significantly support private sector development and strengthen governance**, including: the Commercial Code; the Commercial Courts Act; and a revised Public Procurement and Concessions Act.

3. **All quantitative performance criteria under the program through end-June 2010 were observed** (Table 1a). We also met three out of four structural benchmarks set for completion under the program for end-June 2010. Completion of the remaining benchmark, computerized government asset registry, is expected to be completed by end-December 2010 (Table 2). However, there have been unforeseen difficulties in completing the compilation of the national accounts data, and this will result in some delay in meeting the end-September benchmark. Our intention is to finalize the publication of the national accounts at the beginning of 2011.

4. **Liberia has finally returned to a sustainable level of public debt**. The announcement by Paris Club creditors of the cancellation of all remaining claims, and the completion of the buyback of commercial debt with the last two remaining creditors were welcome developments. We will aim to conclude remaining Paris Club bilateral agreements by March 2011. Our efforts to reach agreement on HIPC terms with non-Paris Club creditors are intensifying. While remaining committed to maintaining low debt vulnerability, we are now seeking highly concessional financing to fund our pressing investment needs. In this context, we will prepare procedures for submitting borrowing requests to the Debt Management Committee by end-October.

5. **The 2010/11 Budget was approved by the Legislature in September**. An expansion of revenue is anticipated on account of one-off signature payments for concession agreements, and increased sales taxes and excises on luxury goods and communications. As announced in 2009, the top rates of corporate and personal income tax will be lowered from 35 to 25 percent on January 1, 2011, somewhat moderating the revenue increase. Significant expenditure increases relate to the regularization of several thousand qualified volunteer teachers and nurses onto the payroll, pay increases for police and armed services personnel,

election administration, and capital projects. Spending in support of PRS deliverables accounts for 65 percent of total budgeted spending. Budget financing is presently limited to a drawdown of uncommitted deposits in the amount of one percent of GDP and intra-year treasury bill financing, which we expect to begin shortly. A supplementary budget will be tabled should new financing sources become available.

6. **We have taken steps to promote full and orderly execution of the 2010/11 budget**. Budget execution in 2009/10 was complicated by overly optimistic estimates of both revenue and expenditure in the context of global recession. While arrears were avoided through strict adherence to our risk-management plan, the deviation of planned from actual expenditure created considerable dislocation and undermined spending efficiency. In 2010/11 we have balanced ambition and caution in estimating revenue and in given due recognition to potential risks. On the expenditure side, we have carefully matched spending units' twelve-month cash plans with the expected profile of revenue and intra-year domestic financing. As a result, ministries and agencies will be in a better position to develop planning expertise and to carry out their work programs more efficiently.

7. **Improvements continue in public financial management**. The direct payment of central government civil servant salaries has expanded greatly and now includes all of Monrovia and some rural counties. We are making efforts to include the remaining government agencies, and are investigating alternate arrangements for government workers in the more remote areas. Further progress has been achieved in creating a computerized asset registry with a few remaining ministries and agencies expected to be completed by end-December 2010. Efforts to regularize payrolls have expanded to cover 15 ministries, with considerable financial savings from eliminating fraudulent payments. An external audit of pension payments is expected to be completed by end-2010; while a concerted effort is being made to develop our internal audit capacity. We are building capacity in state-owned enterprises to comply with public reporting requirements under the Public Financial Management Act. We are confident that quarterly reporting to the Ministry of Finance will begin in early 2011 (benchmark).

8. **The computerization of government treasury and revenue functions is now proceeding**. An integrated financial management information system will be the basis for government accounting incorporating the new chart of accounts from July 1, 2011. We will continue to roll out the ASYCUDA system in customs—expanding it to the Monrovia oil terminal and international airport by end-December 2010 (benchmark)—and begin implementing the IT system in the Bureau of Internal Revenue.

9. **Monetary and financial conditions are stable**. Pressure for exchange rate depreciation against the US dollar has lessened substantially since the beginning of the year partly because of action taken by the CBL to smooth developments in the foreign exchange market. Supported by a stable exchange rate and international oil price, inflation has moderated since the second quarter of 2010. Assuming these conditions remain, inflation is projected to be around 5 percent to end-2010. Net domestic assets of the CBL are slightly

below expectation at mid-year, reflecting higher-than-anticipated government and commercial bank deposits at the CBL. Private sector credit growth has slowed since the onset of the financial crisis but is now expected to stabilize at a reasonably buoyant pace of expansion.

10. **Our efforts to transform the financial system to support inclusive, broad-based growth are ongoing**. We intend to consolidate our existing initiatives and to strengthen our medium-term financial sector reform agenda as a center pillar of the overall growth strategy. The Liberian public and other stakeholders will be informed of this enhanced framework. A regulatory framework to establish a privately-managed credit reference bureau has been formulated. The new Commercial Court Act will help strengthen creditors' rights and improve borrower's access to bank credit. The new Commercial Code provides for lease and mortgage financing. Following the issuance of regulations in June, a treasury bill program will be launched later in 2010. The Central Bank of Liberia has revised the Anti-Money Laundering Law of 2002 for submission to the Legislature following consultations with stakeholders. The CBL has improved internal controls and established a satisfactory track record in implementing the recommendations of the 2008 Safeguards Assessment. Against this background, the next Monetary Data Reporting Package audit will be carried out by the CBL internal audit department.

11. **Regional and multilateral trade agreement negotiations are advancing**. We are on track to begin migrating to the ECOWAS Common External Tariff by mid-2011. As regards WTO accession, Liberia has been accorded observer status, and hopes to conclude accession negotiations in 2012.

12. **We will persevere with our efforts to develop national accounts statistics**. Preliminary results of the labor force survey confirm high levels of vulnerable employment status (self employment in the informal sector). The validation of national accounts data has taken longer than expected to complete due to a poor rate of response from some large formal sector enterprises, data issues, and difficulties in estimating the size of the informal sector. Publication of new estimates is anticipated in February 2011 (delayed from September 2009). We are preparing, with World Bank support, a household expenditure survey which will, inter alia, support national accounts compilation going forward.

13. **Delivery of 2008–11 PRS objectives has improved**, as indicated by the second year implementation report. We have begun stakeholder consultations for a successor national development strategy, "Liberia Rising 2030", aimed at rapid, inclusive growth. To better prioritize investment projects into a coherent program aligned to the national development strategy, we will extend our project budget into a multi-year investment program. This will cover selected spending ministries and link closely to the medium-term expenditure framework being prepared for the FY2012 budget with support from the World Bank and other donors.

Table 1a. Liberia: Quantitative Performance Criteria and Indicative Targets, FY2010
(Millions of US dollars, unless otherwise indicated)

	Sep. 09		Dec. 09			Mar. 10			Jun. 10		
	Program	Actual	Program	Adjusted Target	Actual	Program	Adjusted Target	Actual	Program	Adjusted Target	Actual
Performance criteria and indicative targets 1/											
Fiscal targets 2/											
Floor on total revenue collection 3/	39.5	52.7	121.5	102.0	116.6	181.5	185.3	204.9	277.6	260.0	275.0
Floor on fiscal balance 4/	0.0	0.8	-4.1	-4.1	-0.9	-4.1	-4.1	19.6	-4.1	-4.1	-3.8
Floor on social and other priority spending (percent of total revenue and grants collected) 5/	…	…	60.0	60.0	63.8	60.0	60.0	60.1	60.0	60.0	70.7
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
Ceiling on new domestic borrowing (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	…	…	…
Ceiling on new domestic borrowing of the central government	…	…	…	…	…	…	…	…	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
Ceiling on new domestic arrears/payables (continuous basis) 6/	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 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
Central Bank of Liberia 7/											
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
Floor on CBL's cash-based budget balance	-0.4	0.8	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Floor on CBL's net foreign exchange position 8/	57.1	60.3	248.4	248.4	268.9	251.5	251.5	268.5	261.6	254.6	270.7
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects 9/	…	…	20.0	…	0.5	20.0	…	23.8	47.4	…	29.9

1/ Performance criteria at end-December 2009 and end-June 2010 except where marked. All others indicative targets.

2/ Cumulative within each fiscal year (July 1-June 30).

3/ Beginning December 2009, an adjuster comes into force stipulating that the floor on total revenue collection will be adjusted downward by any shortfall in receipts of one-time iron ore signing bonuses and contributions into Social Development Funds from new iron ore projects from their programmed level.

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

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

6/ Excluding the arrears arising from the current debt outstanding.

7/ Cumulative; calendar year basis.

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

9/ Cumulative; fiscal year basis.

Table 1b. Liberia: Quantitative Performance Criteria and Indicative Targets, FY2011
(Millions of US dollars, unless otherwise indicated)

	Sep. 10	Dec. 10	Mar. 11	Jun. 11
	Program	Program	Projection	Projection
Performance criteria and indicative targets [1/]				
Fiscal [2/]				
Floor on total revenue collection of the central government [3/]	48.2	103.1	210.6	294.5
Floor on social and other priority spending (percent of total revenue and grants collected, indicative target) [4/]	…	65.0	…	65.0
Ceiling on new noncash tax/duty payment to the central government (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables of the central government (continuous basis) [5/]	0.0	0.0	0.0	0.0
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	0.0	0.0
Ceiling on non-concessional external borrowing of the public sector (continuous basis) [6/]	0.0	0.0	0.0	0.0
Ceiling on gross borrowing by the public sector in foreign currency [7/]	46.0	46.0	46.0	46.0
Ceiling on new domestic borrowing of the central government [8/]	2.5	5.0	7.5	10.0
CBL				
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0
Floor on CBL's net foreign exchange position [8/, 9/]	264.6	274.5	…	…
Ceiling on CBL's gross credit to central government [8/, 10/]	0.0	0.0	0.0	0.0
Ceiling on net domestic assets of the CBL (indicative target) [8/, 11/]	-37.7	-28.1	…	…
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects [2/]	0.0	0.0	37.4	42.5
Memorandum item: Programmed receipt of external budget support and ratified concession payments [2/]	11.0	27.8	54.4	92.6

1/ Performance criteria at end-December 2010 except where marked and indicative targets at end-September 2010.

2/ Cumulative within each fiscal year (July 1-June 30).

3/ Beginning December 2009, an adjuster comes into force stipulating that the floor on total revenue collection will be adjusted downward by any shortfall in receipts of one-time iron ore signing bonuses and contributions into Social Development Funds from new iron ore projects from their programmed level.

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

5/ Excluding the arrears arising from the current debt outstanding.

6/ The public sector comprises the central government, the CBL, public enterprises, and other official sector entities.

7/ This is set at the US dollar term on the basis of net present value of debt to 2010 GDP.

8/ Bridge financing from the CBL is available under the program for shortfalls in programmed receipt of external budget support and ratified concession signature payments up to a maximum of US$20 million. In this event, floors will adjust downwards and ceilings adjust upwards by the extent this financing is utilized, up to a maximum of US$20 million.

9/ From December 2009, CBL's net foreign exchange position includes SDR holdings and is based on the scheduled disbursement on the ECF program. In the event of delays to ECF disbursements, the floor would adjust down by the cumulated amount of financing relative to the programmed schedule of disbursements.

10/ Cumulative change from June 30, 2010.

11/ Indicative target. The net domestic assets of the CBL are defined as base money minus the net foreign assets of the CBL converted into the U.S. dollars at program exchange rates.

Table 2. Structural Benchmarks, Dec. 2009–February 2011

Measures	Target Dates	Justification	Status October 25, 2010
National Accounts establishment survey completed.	End-December 2009	Urgently needed to monitor program performance and post conflict recovery	Met with delay. Revised survey completed April 2010.
Debt management software installed to support data storage, analysis, reporting and interface between the CBL and the Ministry of Finance.	End-December 2009	Critical safeguard against the re-accumulation of unsustainable debt after Liberia's exit from the HIPC process	Met with delay. Interface still to be completed.
Two successive quarterly implementation reports of the PFM law circulated to legislature, cabinet, GAC and development partners.	End-April 2010	Implementing PFM reforms and legislation is critical for delivering government services and mobilizing external support for the budget	Met with delay in June 2010.
Remove the import permit declaration requirement for imports covered by ASYCUDA. (A positive list containing a limited number of goods that are subject to price controls or affect national security will require clearance by the Ministry of Commerce.)	End-June 2010	Removes a cumbersome administrative barrier that raises operating costs and prices through effective reduction of competition.	Not met. Implemented with delay in September 2010.
Treasury bill auction regulation adopted by the CBL Board and publicized.	End-June 2010	Develop domestic capital market, provide an instrument for short-term domestic financing, and facilitate de-dollarization.	Met. Approved and issued by the CBL board in June 2010.
Direct salary payments to banks for all Monrovia-based civil servants.	End-June 2010	Reduce scope for fraud and encourage monetization and de-dollarization.	Met. All Monrovia-based civil servants in ministries as well as civil servants in 8 of 15 counties paid by direct bank payment.
Compilation of a comprehensive computerized asset registry by the General Services Agency of all ministries and agencies.	End-June 2010	Enhance transparency and accountability of fiscal operation.	Not Met. Electronic inventory completed for 85 of 89 ministries and agencies as of June 1, 2010.
Publication of validated national accounts data for 2008 by the Statistical agency LISGIS	End-September 2010 (rephased to February 2011)	Provision of critical data for economic surveillance and macroeconomic policy.	Not met. Source data are under validation
Extend ASYCUDA system to the Monrovia oil terminal and international airport	End-December 2010	Trade facilitation and tax administration enhancement.	Ongoing
Regular quarterly reporting of state owned enterprise financial operations to Ministry of Finance.	End-January 2011	Essential for program monitoring of public sector borrowing.	Ongoing

ATTACHMENT II. LIBERIA: AMENDMENT TO THE TECHNICAL MEMORANDUM OF UNDERSTANDING

This memorandum sets out the understandings between the Liberian authorities and the International Monetary Fund (IMF) regarding amendments to the Technical Memorandum of Understanding (TMU) attached to the Letter of Intent dated June 7, 2010. The TMU is amended for changes to the total revenue collection adjustor (paragraph 3) and the external financing adjustor (paragraph 19).

I. DEFINITIONS

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

Program Schedule for Cumulative Signing Bonuses and
Social Development Fund Payments from New Iron Ore
Projects, 2010/11
(In millions of U.S. dollars)

December 2010	0.0
March 2011	37.4
June 2011	42.5

19. **External financing adjustor.** The program ceilings for CBL gross credit to government and CBL net domestic assets will be adjusted upward and the program floor on the net foreign exchange position of the CBL will be adjusted downward, by the amount of the difference between actual and programmed external budget support and ratified concession signature payments. The adjuster will be calculated on a cumulative basis from July 1, 2010.

Cumulative Program External Budget Support and
Ratified Concession Signature Payments
(In millions of U.S. dollars)

December 2010	27.8
March 2011	54.4
June 2011	92.6

INTERNATIONAL MONETARY FUND

LIBERIA

Staff Report for the 2010 Article IV Consultation and Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility

Informational Annex

Prepared by African Department
(In consultation with other departments)

November 22, 2010

- **Relations with the Fund.** Describes financial and technical assistance from the Fund and provides information on the safeguards and assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 24.38 million (18.87 percent of quota) at end-September 2010.
- **Joint World Bank-IMF Work Program, 2010–11**.
- **Statistical Issues.** Assessment of the quality of the statistical data. Weaknesses in national accounts statistics are hampering the analysis of economic developments in the country.

Contents Page

II. Liberia—Relations with the Fund
(As of October 31, 2010)

I. Membership Status: Joined: March 28, 1962 — Article XIV

II. General Resources Account:	SDR Million	%Quota
Quota	129.20	100.00
Fund holdings of currency	129.18	99.99
Reserve Tranche Position	0.03	0.02

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	123.98	100.00
Holdings	132.23	106.66

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
ECF Arrangements	24.38	18.87

V. Latest Financial Arrangements:

	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Mar 14, 2008	Mar 13, 2011	239.02	230.14
EFF	Mar 14, 2008	Sep 25, 2008	342.77	342.77
Stand-By	Dec 07, 1984	Dec 06, 1985	42.78	8.50

[1/] Formerly PRGF

VI. Projected Payments to Fund[2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal					2.10
Charges/Interest		0.00	0.06	0.06	0.06
Total		0.00	0.06	0.06	2.16

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

VII. Implementation of HIPC Initiative: — Enhanced Framework

I. Commitment of HIPC assistance	
Decision point date	March 2008
Assistance committed	
By all creditors (US$ Million) [1/]	2,739.20
Of which: IMF assistance (US$ Million)	721.10

(SDR equivalent in millions)	440.90
Completion point date	June 2010

II. Disbursement of IMF assistance (SDR Million)

Assistance disbursed to the member	440.90
Interim assistance	30.14
Completion point balance	410.76
Additional disbursement of interest income [2/]	10.99
Total disbursements	451.89

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

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

VIII. Delivery of Debt Relief at the Completion Point:

I. Debt relief (SDR Million)

Debt relief (SDR Million)	548.53
Financed by: Liberia Administered Account	116.20
Remaining HIPC resources	432.33

II. Debt relief by facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
June 2010	342.77	205.76	548.53

IX. Safeguards Assessment

An updated safeguards assessment of the Central Bank of Liberia (CBL) was completed in August 2008. The update found that the CBL had largely addressed the measures to increase transparency recommended by the 2007 interim safeguards assessment. Some significant risks remained, however, and were addressed subsequently, including the assumption of co–signing authority for CBL financial matters by the Fund-supported Special Advisor who completed his assignment at CBL in October 2009. The assessment also found that internal audit capacity was weak and that the Audit Committee was not exercising effective oversight of CBL financial reporting, audit, and control systems. A priority measure to engage its external auditor to conduct special periodic audits of the monetary data reported to the fund has been adopted by the CBL. The report for the six months ending June 30, 2010 indicated that key processes and controls over the reporting of the monetary data to IMF were adequate and no design or operating deficiencies were reported. Against this background, the monetary data reporting package audit was handed over to the CBL internal audit department, beginning with the second half of 2010. The CBL has also made progress in implementing other safeguards recommendations, including development of investment guidelines for CBL foreign exchange reserves. Staff will continue to monitor developments in the CBL's safeguards framework.

X. Exchange Rate Arrangement

Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers. The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. Since the beginning of 2009, the Liberian dollar has fluctuated more against the U.S. dollar. As a result, the classification of the de facto exchange rate arrangement is classified as 'other managed'. Liberia's exchange rate at end-September 2010 was L$72.5=US$1.

XI. Article IV Consultation

The 2008 Article IV consultation discussions were held in Monrovia during October 20–31, 2008 in Monrovia. The staff report (Country Report No. 09/4, 1/13/09) was discussed by the Executive Board on December 22, 2008 and is posted on the IMF website. For the 2010 Article IV consultation discussions, a staff mission visited Monrovia during September 21–October 1, 2010.

XII. Technical Assistance 2008–10

Subject	Department	Date
Customs Administration	FAD	January 2008
Revenue Administration and Tax Administration	FAD	April 2008
Review of Revenue Administration		
Reforms and Technical Assistance Needs	FAD	February 2009
PFM—Drafting Regulations	FAD	February–March 2009
Fiscal Decentralization	FAD	February–March 2009
Balance of Payments	STA	January 2008
Banking Supervision	MCM	September 2008
Accounting	MCM	January 2009
Monetary Operations	MCM	March 2009
GFS	STA	April–May 2009
PFM Regulations Drafting	FAD	May 2009
Revenue Authority, Customs and Tax		
Administration	FAD	May 2009

Subject	Department	Date
Legal Drafting	LEG	May 2009
Foreign Exchange Operations	MCM	June 2009
PFM	FAD	June 2009
Accounting Standards	MCM	August–September 2009
Tax Administration	FAD	September 2009
Banking Supervision	MCM	September–October 2009
Monetary Operations	MCM	October 2009
Tax Policy	FAD	November 2009
Monetary Finance Statistics	STA	March–April 2010
National Accounts	STA	April 2010
Central Bank Accounting Standards	MCM	May 2010
Monetary Operations	MCM	June–July 2010
Revenue Administration	FAD	July 2010
Fiscal Law—Drafting Tax Legislation	FAD	July 2010
National Accounts	STA	July–August 2010
Banking Supervision	MCM	August 2010
PFM	FAD	October 2010
Resident Advisors		
Banking Supervision	MCM	February 2007–August 2008
Payment Systems	MCM	April 2007–October 2007
Long-term Advisor for the CBL	MCM	August 2007–October 2009
Public Financial Management	FAD	July 2008–Present

XIII. Resident Representative

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

II. Liberia—Joint World Bank-IMF Work Program, 2010–11

(As of end-September 2010)

Title	Products	Timing of mission	Expected delivery date	Status
A. Mutual information on relevant work programs				
1. World Bank work program	1. Liberia Poverty Assessment	January 2010	September 2011	Ongoing (Phase 1)
	2. Fourth Reengagement and Reform Support Program (RRSPIV)	November 2010	September 2011	Policy discussions
	3. Poverty Reduction Strategy - Support	November 2010	June 2011	Concept stage
	4. Policy Note on Concessions	October 2010	June 2011	Concept Stage
	5. Economic Governance and Institutional Reform Project	November 2010	August 30, 2011	Ongoing
2. IMF work program	1. Fourth Review of ECF	April 2010	Mid-2010	Completed June 2010
	2. Fifth Review of ECF	October 2010	December 2010	Scheduled December 2010
	3. Assist authorities in setting up macroeconomic framework tool		January 2011	
3. Work jointly performed	1. Joint Workshop with senior legislatures on infrastructure financing and debt	April 2010	Mid-2010	Delayed to February 2011.
	2. Assist the authorities in developing MTEF/PSIP framework for 2011/12 budget	October 2010 (Bank) February 2011 (Fund)	April 2011	Ongoing
	3. Assist the authorities in compiling 2008 National Accounts	July 2010 (Fund) October 2010 (Bank) February 2011 (Fund)	February 2011	Ongoing
B. Requests for work program inputs				
Fund request to Bank	1. Assistance in elaborating and delivering financial sector development program	2011	Not decided	
Bank request to Fund	1. Regular updates of performance under the Fund-supported program and macroeconomic projections.		Continuous	Last update September 2010
	2. IMF Relations Note		As needed	

III. Liberia—Statistical Issues

As of November 1, 2010

I. Assessment of Data Adequacy for Surveillance
General: Data have serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in the areas of national accounts and balance of payments statistics.
National Accounts: Comprehensive national accounts data are not available. Fund staff estimate GDP by sector using the production approach and primary source data provided by the Liberia Institute of Statistics and Geo-Information Services. Estimates for GDP by expenditure are not available. Consequently, there is a high degree of uncertainty regarding estimates of the level and growth rate of real GDP, sectoral components, and all ratios to nominal GDP. The national business register and National Accounts questionnaires were established in December 2008. A second round of national accounts establishment survey has been completed after low response rates from the first one and data are being compiled. The Fund is currently providing TA in this area with verifying and validating the source data, but there are challenges to estimating informal sector activities. Liberia participates in the National Accounts Module of the Enhanced Data Dissemination Initiative (EDDI), which aims to strengthen annual national accounts, and to develop producer price indices. An upward revision of GDP is expected in early 2011 after methodological issues have been addressed.
Price statistics: A consumer price index for Monrovia has been compiled since 2005. The Harmonized Consumer Price Index providing national coverage was officially adopted in 2007.
Government finance statistics: The Ministry of Finance regularly provides the African Department with monthly disaggregated data on government revenue and on government current and capital expenditure on a cash and commitment basis. However, there is a number of areas where the government finance statistics need to be improved: reporting financing items and expenditures on domestic debt and arrears; lack of legal framework to collect statistics; limited data sharing and coordination among data producing agencies; inconsistent institutional coverage of the statistics with other datasets (e.g. national accounts and monetary statistics); omission of nonmonetary transactions; limited data on stocks of financial assets and liabilities; and incorrect reference exchange rate to convert data from Liberian dollars to U.S. dollars .
Monetary statistics: Data provision in this area is adequate for surveillance. The Central Bank of Liberia has made progress in adopting the statistical methodology recommended by the IMF's *Monetary and Financial Statistics Manual* (MFSM). However, the report of monetary and financial statistics (MFS) has been suspended since June 2009. A STA mission in March 2010 assisted authorities in advancing to introduce standardized report forms of MFS and collecting data from commercial banks in accordance with the methodology in the MFSM.

<table>
<tr><th colspan="2">I. Assessment of Data Adequacy for Surveillance (continued)</th></tr>
<tr><td colspan="2">Balance of payments: Reporting is not comprehensive, and Fund staff prepare provisional balance of payments statistics for surveillance. Although some progress in the collecting and reporting of data have been made with STA support, there still remain several areas that need improvement: primary source data, compilation, and timeliness in data dissemination, especially for trade and services, foreign direct investment, government expenditures, remittances, and nonresident deposits data.</td></tr>
<tr><th colspan="2">II. Data Standards and Quality</th></tr>
<tr><td>Participant in the General Data Dissemination System (GDDS) since October 2005.</td><td>Liberia has not yet received a mission to produce the Data Module of the Reports on the Observance of Standards and Codes (data ROSC).</td></tr>
<tr><th colspan="2">III. Reporting to STA (Optional)</th></tr>
<tr><td colspan="2">The authorities report annual balance of payments data to the IFS and the BOPSY, but do not report the government statistics to the GFSY.</td></tr>
</table>

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 10/157
FOR IMMEDIATE RELEASE
December 8, 2010

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation with Liberia

On December 8, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Liberia.[1]

Background

Since the last Article IV consultation at end-2008, the authorities have instituted far reaching institutional and legal changes in public financial management, debt management, budget process, tax policy, and tax administration. In the financial sector, a raft of legal and regulatory improvements was implemented aimed at strengthening financial sector stability, increasing intermediation, and expanding access to financial services. The Legislature has approved a comprehensive Public Financial management Act, a new Commercial Code, and significant changes to the Revenue Code.

The implementation of the Liberia Poverty Reduction Strategy (PRS) adopted in 2008 has been satisfactory. Implementation progress was slow during the first year but the authorities stepped up their efforts to bring PRS implementation back on track through a series of 90-day action plans. The second year implementation report of the PRS covering the period to April 2010 reports an increase of the implementation rate of deliverables to 80 percent, from 20 percent in the first year.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm

Over the past two years strong macroeconomic policies, strengthened institutions, and debt relief have stabilized the economy and supported confidence building. Many vulnerabilities remain.

While medium-term prospects are bright, notably in the commodity export sectors, broad-based growth is necessary to reduce high levels of under employment and widespread poverty. To this end, future commodity revenues would need to be channeled to infrastructure financing and capacity building to enhance competitiveness. Financial sector development would help support the private sector. Further reforms are necessary to remove structural impediments to growth, notably of property rights and land tenure.

After a slowdown in 2009, economic activity is strengthening in 2010 with subdued inflation and a stable exchange rate. Real GDP growth is expected to rise from 4½ percent in 2009 to 6 percent in 2010. Exports have rebounded on account of rising rubber and timber production. Foreign direct investment is on the upswing and new investment commitments have also increased following the ratification of several new iron ore and palm oil concession agreements.

Executive Board Assessment

Executive Directors commended the Liberian authorities for their continued satisfactory implementation of the Fund-supported program. Directors noted that the authorities' prudent macroeconomic policies, strengthened institutions, and debt relief had contributed to macroeconomic stability and laid the basis for faster economic growth. They stressed that, while the medium-term prospects are generally favorable, reflecting the expected boost in mineral exports, significant challenges stemming from volatile commodity prices and large development needs will need to be tackled to put the economy on a sustainable, high growth path.

Directors supported the authorities' new development strategy aimed at inclusive growth, capacity building, financial sector development, and infrastructure investment. They emphasized the importance of prioritizing infrastructure projects and safeguarding the recently-achieved debt sustainability. In this regard, it is critical to strengthen project implementation capacity, including in the areas of project appraisal, procurement, and execution, as well as internal audit and control. Directors also encouraged the authorities to focus greater attention on securing property rights, resolving land ownership disputes, and maintaining social stability.

Directors welcomed the authorities' commitment to strengthen public financial management and limit debt creation. They saw scope for more effective engagement with bilateral and multilateral partners to generate infrastructure funding, as well as opportunities for greater involvement of the private sector in infrastructure provision. They stressed that future concession revenues should be deployed effectively to improve infrastructure and strengthen the human capital base.

Directors agreed that monetary policy should aim to sustain adequate foreign exchange reserves. They noted that the launch of the treasury bill market would improve liquidity management and boost demand for the use of the Liberian dollar. This in turn, should help broaden the scope for an active monetary policy. They agreed that enhancing Liberia's export competitiveness could not be based on exchange rate adjustment, given the high level of dollarization in the economy, and encouraged the authorities to press ahead with the necessary structural reforms to improve the business climate.

Directors considered it important to strengthen the level of financial intermediation and services in support of private sector growth. They encouraged the authorities to seek solutions with the financial community to improve access to financial services. Directors noted that the successful conclusion of debt buyback with the remaining commercial creditors and the agreement with Paris Club creditors on the full cancellation of remaining debt had sharply reduced Liberia's debt vulnerabilities. They urged that every effort should also be made to secure the remaining outstanding pledges from members towards the Fund's contribution to debt relief for Liberia.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Liberia: Selected Economic and Financial Indicators, 2006–10

	2006	2007	2008	2009 Prel.	2010 Proj.
	(Annual percentage change, unless otherwise indicated)				
National account and prices					
Real GDP	7.8	9.4	7.1	4.6	6.3
GDP deflator (US dollars)	3.5	12.0	7.3	-1.2	4.5
Nominal GDP (millions of US dollars)	603.8	739.9	850.7	879.0	976.6
Consumer prices (annual average)	7.2	13.7	17.5	7.4	7.4
External sector					
Exports, f.o.b.	44.1	28.6	22.2	-39.7	34.8
Imports, f.o.b	44.0	13.0	42.2	-20.6	16.8
Terms of trade (deterioration -)	54.5	-11.9	-8.1	-9.4	66.1
Average exchange rate (local currency per U.S. dollar)	58.0	61.3	63.2	68.3	…
Gross official reserves (millions of US dollars)	46.5	85.3	107.8	312.2	317.1
Import coverage of reserves (months) 1/	0.5	0.8	0.8	3.2	2.6
Central government operations 2/					
Total revenue and grants	6.5	73.3	39.5	13.5	22.6
Of which: total revenue	6.6	73.6	36.7	5.2	30.2
Total expenditure and net lending	-19.5	100.2	60.2	26.3	13.4
Of which: current expenditure	-12.0	84.1	62.9	24.2	16.4
capital expenditure	-65.5	354.3	43.4	41.5	-6.2
Money and credit					
Reserve money	23.9	26.7	13.1	12.4	-3.2
Broad money (M2) 3/	35.1	43.2	45.7	37.7	1.9
Credit to private sector	41.7	39.2	44.1	31.5	11.1
	(Percent of GDP)				
External sector					
Current account balance					
(including official grants)	-13.9	-31.4	-57.3	-36.8	-40.4
(excluding official grants)	-199.6	-177.9	-185.3	-148.2	-152.0
Trade balance	-46.3	-39.3	-53.4	-46.6	-46.1
Exports, f.o.b.	26.8	28.1	29.9	17.4	21.2
Imports, f.o.b	-73.1	-67.4	-83.3	-64.0	-67.3
Central government operations 2/					
Total revenue and grants	14.9	22.1	26.0	27.2	31.0
Of which: total revenue	14.8	21.9	25.2	24.4	29.6
Total expenditure and net lending	10.7	18.3	24.8	28.8	30.4
Of which: current expenditure	10.1	15.8	21.8	24.9	27.0
capital expenditure	0.6	2.5	3.0	3.9	3.4
Overall fiscal balance (including grants)	4.2	3.8	1.2	-1.6	0.6
Public external debt	783.7	594.5	376.6	190.9	8.9

Sources: Liberian authorities; and IMF staff estimates and projections.
1/ Excluding imputed UN military services imports.
2/ Fiscal year ending in June on a cash basis (debt service payments shown after all debt relief).
3/ Defined as Liberian currency outside banks plus demand, time, and savings deposits in Liberian and US dollars.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 10/479
FOR IMMEDIATE RELEASE
December 8, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under Extended Credit Facility for Liberia and Approves US$ 6.82 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Liberia's economic performance under a program supported by an Extended Credit Facility (ECF) arrangement. The completion of the review enables the immediate disbursement of an amount equivalent to SDR 4.44 million (about US$6.82 million), bringing total disbursements under the arrangement to SDR 234.58 million (about US$360.37 million).

The three year ECF arrangement for Liberia was approved in March 2008, for an amount of SDR 239.02 million (about US$367.19 million; see Press Release No. 08/52). The Executive Board also completed the 2010 Article IV Consultation. A Public Information Notice will be published in due course.

Following the Executive Board's discussion of Liberia, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, made the following statement:

"The Liberian authorities have continued to implement prudent macroeconomic policies and to advance structural reforms under their IMF-supported economic program. The balanced budget principle was maintained during the 2009–10 financial year, with revenue shortfalls linked to the global economic crisis being matched by spending cuts. Inflation has returned to single digits, the exchange rate has been broadly stable, and economic growth is picking up, helped by a recovery of foreign direct investment flows.

"Significant progress has been made in implementing public financial management reforms and adopting laws and regulations that facilitate trade and investment. Reaching the completion point under the HIPC Initiative has laid the basis for comprehensive debt relief and Liberia now has a modest debt burden while having space to take on new concessional debt to finance investment projects.

“The macroeconomic policy framework for the current fiscal year (2010–11) is well-conceived. The budget envisages solid revenue growth, the allocation of an increased share of budgetary resources to poverty reduction programs, and a significant boost to public investment. Although the balanced budget policy remains in place, this will be re-evaluated if concessional financing and appropriate projects are identified. Monetary policy should support low inflation and permit a modest increase in reserves.

“Over the medium term, the authorities will need to follow through with reforms aimed at alleviating structural constraints on growth. The envisaged emphasis on infrastructure development is appropriate, but effective execution will require that capacity in project selection and preparation be improved, along with more efficient procurement and cash management procedures. Continued efforts to strengthen public financial management would complement other efforts to scale up investment effectively, while successful implementation of planned revenue administration reforms would augment budgetary resources. Accelerated financial sector development, and broad-based governance reform—including land tenure and property rights—would also support rapid private sector growth over the medium term,” Mr. Lipsky added.

Statement by Moeketsi Majoro, Executive Director for Liberia
December 8, 2010

Introduction

My Liberian authorities appreciate the IMF Executive Board and Management for their continued engagement and support. They are grateful for the productive policy discussions and counsel proffered by the IMF Mission during the Article IV consultation and Fifth Review under the Extended Credit Facility. The authorities agree broadly with the staff report as it addresses the main challenges to the successful implementation of Liberia's growth strategy. These challenges include gaining cost competitiveness outside the enclave sectors, infrastructural development, strengthening institutions, and medium-term budgetary planning in the post-HIPC period.

Recent economic developments

The Liberian economy has performed well in recent years. The economy grew on average by 6.8 percent over the last five years in response to the sound macroeconomic policy implementation and far reaching structural reforms. Reconstruction continues to drive robust growth, in spite of the difficult international environment. The global financial crisis had a significant impact on the economy in 2009, impeding major foreign direct investment (FDI) in the mining and forestry sectors. Declining commodity prices for major exports such as rubber, iron ore, and sawn timber also contributed to the slowdown in production and investment, impacting formal employment in the rural areas. As a result, real GDP growth fell to an estimated 4.6 percent in 2009 from 7 percent in the preceding year.

Despite the fall in international agricultural prices, output in the agricultural and forestry sectors remained relatively strong. Inflation in 2009 averaged 7.4 percent, having moderated since its double digit highs in 2008, owing to prudent monetary operations and the relatively steady prices of food and fuel. Decreases in export earnings coupled with the decline in remittances have put pressure on the exchange rate in 2009. However, the current account deficit is expected to be fully financed by FDI and other external inflows. Gross international reserves of the Central Bank of Liberia (CBL) increased in 2009.

Program performance

Against the background of significant challenges, including from the global financial and economic crises, my authorities maintained macroeconomic stability and satisfactorily performed under the ECF-supported program. All quantitative performance criteria under the program through end-June 2010 were met. My authorities also observed three out of four structural benchmarks set for completion in June 2010. Completion of the remaining benchmark, which is to computerize government asset registry, is anticipated to be met by the end of December 2010. However, due to some unexpected constraints, the benchmark on the compilation of national accounts data could not be observed. My authorities plan to finalize the publication of the national accounts at the beginning of 2011.

Outlook

Prospects for a continued recovery of the Liberian economy remain good. Liberia's low economic base will present many opportunities for reconstruction, maintaining high growth in the medium term. The continued recovery of agriculture and forestry, which accounted for 61.5 percent of the economy in 2009, will be the main impetus to growth. Additionally, the resumption of iron ore mining will enhance growth over the medium term, attracting large investment as well as boosting exports. Accordingly, real GDP growth is projected to remain fairly strong at 6.3 percent in 2010 and around 8.5 percent in 2011. In the medium term, inflation is projected to moderate as import prices and the exchange rate stabilize. The gross international reserves of the CBL in months of import cover is projected to decline from 2.6 in 2010 to 2.0 in 2011, largely attributable to the expected high growth and development-related imports.

Fiscal policy

My authorities' fiscal strategy continues to aim at limiting debt creation and rationalizing public financial management. In light of this, the authorities have structured the 2010/11 budget in two parts: a core government budget which reflects those revenues that are expected to materialize and grow each year that will be used to pay for spending on core government priorities and recurrent activities; and a project budget based upon one-off and/or uncertain receipt that will finance one-off projects. The core budget will function as planned, without disruption and will contain adequate investment through a capital expenditure minimum rule. Meanwhile, projects will only start when funding has been received. The project budget will also assist target and focus entities spending on key, specific poverty reduction activities. Additionally, my authorities are committed to strengthening the link between policy, medium-term planning and budgeting, and will implement the Medium Term Expenditure Framework (MTEF) over the next two years. As part of the new PRS (National Vision), the development of sector plans aligned to the PRS will ensure that the budget priorities are more closely aligned with poverty reduction objectives. Such sector plans are also necessitated by the MTEF and the Public Sector Investment Program (PSIP). Furthermore, my authorities will ensure that targeted government spending reaches its intended recipients through the new public expenditure 3 survey, which aims to include people from outside of government in monitoring spending. Other methods of ensuring improved monitoring of outputs of government spending includes: activity-based deliverables for the new PRS to be used as measurable objectives for spending entities in the 2010/11 budget; joint monitoring and evaluation by the Ministry of Economic Planning and Economic Affairs and the Ministry of Finance; and PRS deliverables and the reporting of policy outputs from each spending entity in annual and mid-year fiscal outturn.

Monetary and financial sector policies

The monetary policy objective of the CBL remained the attainment of broad exchange rate stability in order to anchor price stability. To achieve this, the CBL continues to use the reserve requirement ratio and the foreign exchange sale auction as the main monetary policy instruments.

In the financial sector, the medium term strategy of the CBL is to produce a significantly changed financial sector, which is stronger, more stable and vibrant, and a vanguard for supporting broad-based economic growth and development. Accordingly, the emphasis of the second phase of the CBL's reform agenda will focus on improving financial intermediation, building a modern payment system, intensifying work towards the establishment of a capital market, reforming and strengthening the insurance sector as well as reforming the non-bank financial sector including the operation of foreign exchange bureaus. Furthermore, in collaboration with commercial banks, the CBL has established a Banking Institute, developed the commercial code and the legislation for the establishment of a commercial court. CBL is also working with banks and the Liberian Institute of Certified Public Accountants to train the staff of banking institutions as a prelude to the implementation by banks of the International Financial Reporting Standards (IFRS), as required by CBL by end-2012.

Debt management policy

With the attainment of HIPC completion point, the authorities intend to move from a no-borrowing policy as was required under the HIPC arrangement, to the resumption of borrowing in order to finance its national reconstruction and development activities. Such borrowing will be consistent with maintaining a sustainable debt position starting this fiscal year. The development of a domestic debt market through sale and issuance of treasury bills is on the way, coupled with new responsibilities of the Debt Management Unit as required by the PFM law and regulation. As contained in the Debt Management Strategy (DMS), all loans will be approved and monitored by the Debt Management Committee and are to adhere to the reporting requirements set out in the PFM. The authorities will also implement and enforce fiscal rules as contained in the DSM. These rules are: to hold the level of debt stock below 60 percent of GDP and earmark borrowing only for investment purposes to ensure intergenerational fairness in the budget process. Furthermore, the government is committed to fully and vigorously implement its National Debt Management Strategy as well as build the institutional and professional capacity of the Debt Management Unit in the Ministry of Finance.

Structural reforms

In order to consolidate the gains of macroeconomic stability in the post-HIPC period and boost growth, my authorities remain committed to the full implementation of the ongoing structural reforms, to enhance the efficiency of the economy and improve the business climate. My authorities remain steadfast in their efforts to improve PFM, debt management, budget process, tax policy, and tax administration. The direct deposit payment of central government civil servant salaries has markedly expanded and covers the whole city of Monrovia and some rural counties. Plans are on the way to include the remaining sectors of government as well as exploring other means for government employees in the more remote areas. Additionally, efforts to regularize payrolls have expanded to cover 15 ministries, with substantial savings from eliminating fraudulent payments. Furthermore, an integrated financial management information system will be the basis for government accounting, incorporating the new chart of accounts from July 1, 2011.

In the financial sector, various legal and regulatory reforms were carried out to strengthen the sector's stability, increase intermediation and widen access to financial services. In addition, the legislature also approved a new commercial code to establish a commercial court and changes to the revenue code.

Conclusion

My Liberian authorities remain mindful of the importance of prudent fiscal and monetary policies as well as debt sustainability to achieve and maintain macroeconomic stability and sustain growth. In this respect, they will continue to implement appropriate revenue and expenditure measures that will help enhance the fiscal space as the key to addressing the large infrastructural deficit of the country as well as increasing employment and pro-poor spending. My authorities appreciate the continued support of Management and development partners in realizing their development goals. It is against this background that the authorities solicit the Executive Board's support in completing the fifth review under the ECF arrangement.