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Liberia: 2006 Article IV Consultation and Staff-Monitored Program—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Authorities of 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 the 2005 Article IV consultation with Liberia and staff-monitored program for Liberia, the following documents have been released and are included in this package:

- the staff report for the 2006 Article IV consultation and staff-monitored program, prepared by a staff team of the IMF, following discussions that ended on March 1, 2006, with the officials of Liberia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 12, 2006. 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) summarizing the views of the Executive Board as expressed during its April 26, 2006 discussion of the staff report that concluded the Article IV consultation.

- a statement by the authorities of Liberia.

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

Statistical Appendix

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

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INTERNATIONAL MONETARY FUND

LIBERIA

Staff Report for the 2006 Article IV Consultation and Staff-Monitored Program

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

Approved by David Andrews and Michael Hadjimichael

April 12, 2006

- The discussions for the 2006 Article IV consultation and a staff-monitored program (SMP) took place in Monrovia during February 16–March 1, 2006. The mission met with President Johnson-Sirleaf, Minister of Finance, Antoinette Sayeh, Minister of Planning and Economic Affairs, Togah McIntosh, Acting Governor of the Central Bank of Liberia (CBL), Richard Dorley, other senior government officials, donor representatives, and representatives of civil society and the business community.
- The staff team comprised Messrs. Powell (head), Honda, Erasmus (all AFR), Arnason (PDR), Nyberg (FIN), Tharkur (Resident Representative), and Ms. Aliu (administrative assistant, AFR). The team worked closely with World Bank and African Development Bank staff and a parallel FAD technical assistance mission.
- The authorities requested Fund staff assistance in developing a program to build a track record which could lead to the eventual resolution of Liberia's arrears and debt overhang. An agreement was reached on an SMP through September 2006. The authorities' letter of intent and memorandum of economic and financial policies are attached to this report.
- At the conclusion of the last Article IV consultation in April 2005,[1] Executive Directors expressed concern about the slow pace of reform implementation, the re-emergence of governance problems, and the weakening of financial management.
- Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers. The authorities have not indicated any immediate plans to accept the obligations of Article VIII.
- The quality of data hampers effective surveillance. Efforts are under way to rebuild a core statistical database.

[1] "http://www.imf.org/external/pubs/ft/scr/2005/cr05166.pdf"

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EXECUTIVE SUMMARY

- **The economy continues its modest recovery,** driven by donor-related expenditure and the resumption of activity in rural areas**.** The pace of growth is expected to pick up in 2006 as reconstruction efforts intensify.

- **Macroeconomic policy over the medium term will be designed to support the government's reconstruction efforts, and create a stable macroeconomic environment that will facilitate private sector development.** To this end, the government will therefore pursue balanced budgets on a cash basis for some time, reflecting domestic and external financing constraints, supported by a monetary policy geared to containing inflation.

- **Liberia faces daunting reconstruction challenges.** The country's physical infrastructure is largely destroyed and its human capital eroded after many years of intermittent conflict. Moreover, public institutions are largely dysfunctional and corruption is endemic.

- **The new government has endorsed the Governance and Economic Management Assistance Program (GEMAP) that aims to strengthen economic governance and financial management and rebuild Liberia's key economic institutions**. Reestablishment of confidence in these institutions is crucial to maintaining stability, securing sustained external support and encouraging private investment.

- **Fiscal management deteriorated markedly toward the end of the National Transitional Government of Liberia's (NTGL) period in office, but corrective measures are being taken by the new government**. As a result of slow revenue collection and excessive expenditures, sizable arrears emerged. The new government has reestablished the Cash Management Committee (CMCo) to avoid further build-up of domestic arrears.

- **The Central Bank of Liberia (CBL) is taking steps to strengthen its financial position and has developed a framework for monetary operations and bank restructuring.** Further efforts, however, are required to eliminate its budget deficit.

- **To help build a policy track record, a staff-monitored program (SMP) has been agreed for the period February–September 2006.** The SMP is fully consistent with the GEMAP as well as with the new government's program of key priorities and deliverables for the first 150 days of its term in office.

- **The SMP aims at achieving significant and irreversible progress in rebuilding key government institutions.** It is based on an ambitious set of quantitative and structural benchmarks, the attainment of which is considered necessary to help maintain the current momentum for economic reform.

I. Introduction

1. **Liberia faces daunting reconstruction challenges following about fifteen years of intermittent civil war through 2003.**[1] The country's physical infrastructure has been largely destroyed, government institutions lack the basic capacity for economic management, and the country's once considerable human capital has been significantly eroded. Poverty in Liberia is also pervasive, particularly in rural areas; real GDP per capita (in 2005 prices) is estimated to have declined by almost 90 percent from US$1,269 in 1980 to US$163 in 2005. Unemployment reportedly remains at over 80 percent, and a similar percentage of the population subsists on less than US$1 a day, with no access to basic health, education, and other social services.

2. **Little progress was made in implementing key reforms during the National Transitional Government of Liberia's (NTGL) term in office from late-2003 to mid-January 2006.** Consequently, only limited progress was made in improving Liberia's relations with the international community. UN sanctions on timber and diamond exports, imposed in mid-2003, were extended further in late 2005. Liberia's cooperation with the Fund showed a modest improvement; while monthly token payments to the Fund were made regularly, policy implementation deteriorated.[2] During the last Article IV consultation discussions in April 2005, Directors urged the authorities to formulate concrete action plans to address weaknesses in financial management and economic governance. Despite advice and support from Liberia's international partners in these areas, the momentum of reform weakened in the course of 2005.

3. **In light of growing concerns, the NTGL and Liberia's key international partners agreed in September 2005 on a long-term international assistance program to strengthen governance and financial management**. The key features of the Governance and Economic Management Assistance Program (GEMAP) are: (i) improving financial management and accountability in all key budgetary institutions and the Central Bank of Liberia (CBL), inter alia by deploying international experts with binding co-signature authority alongside Liberian counterparts; (ii) strengthening the judicial system, and combating corruption; (iii) providing technical assistance to rebuild local capacity in economic management; and (iv) joint oversight over the implementation of the program by a steering committee chaired by the Head of State, and comprising key ministers and local

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[1] The last episode of conflict ended following the signing of a peace agreement in August 2003.

[2] Liberia has been in continuous arrears to the Fund since 1984. A declaration of non-cooperation was issued in 1986, and the country's voting and related rights were suspended in March 2003 because of a protracted lack of cooperation. At end-February 2006, Liberia's arrears to the Fund amounted to SDR 519 million, or 728 percent of quota. Liberia's forthcoming annual obligations are estimated at about SDR 11 million. The authorities have made monthly token payments of US$50,000 since January 2004; payments were increased to US$60,000 since November 2005.

donor representatives. The GEMAP is expected to become fully operational by mid-2006, following the full deployment of international experts at key institutions, and could remain in place until Liberia reaches the completion point under the enhanced HIPC Initiative.[3]

4. **The new President, Mrs. Ellen Johnson-Sirleaf, a former senior UNDP official, was inaugurated on January 16, 2006**.[4,5] She expressed a strong desire to work with the international community to rebuild Liberia's shattered economy and endorsed the GEMAP. As a first step to implementing a credible reform program that can be supported by the international community, the government has worked closely with the international partners to identify key objectives and deliverables for the first 150 days of the administration (the remainder of the 2005/06 fiscal year).

II. Recent Economic Developments

A. Recent Economic Developments

5. **The economy continued to recover in 2005, largely driven by donor activities**. Real GDP is estimated to have grown by 5.3 percent in 2005, following a modest growth of 2.6 percent in 2004. This reflected the gradual improvement of security in rural areas, and restoration of activity in those sectors benefiting from donor assistance (mainly the service sector).[6] Overall, economic activity in 2005 is estimated to have returned to about 75 percent of the prewar level.

Liberia: Recent Economic Developments (2001-06)

	2001 Est.	2002 Est.	2003 Est.	2004 Est.	2005 Est.	2006 Proj.
Real GDP (percentage change)	2.9	3.7	-31.3	2.6	5.3	7.7
Inflation (percentage change; period average)	12.1	14.2	10.3	3.6	6.9	8.0
Overall fiscal balance (incl. grants, percent of GDP)	-0.7	-1.3	0.6	0.0	0.0	0.0
Government revenue (excl. grants, percent of GDP)	11.9	13.0	10.2	13.7	14.5	15.0
Official exchange rate (Liberian dollars per U.S. dollar; end of period)	49.5	65.0	50.5	54.5	56.5	...
CBL's net foreign exchange position (in millions of US dollar)	n.a.	0.5	-0.3	3.8	9.0	16.1
Current account balance (incl. grants, percent of GDP)	-24.5	-3.4	-18.2	-13.2	-1.9	-10.8

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

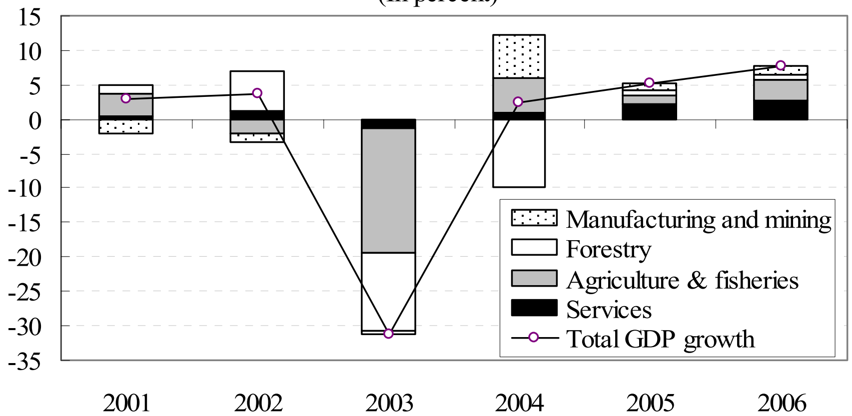
[3] Appendix I, Attachment III provides more details of the GEMAP.

[4] With the deployment of the United Nations Mission in Liberia (UNMIL), the security situation has improved, and elections in October and November 2005 proceeded smoothly.

[5] Mrs. Johnson-Sirleaf won the run-off election on November 8 2006 against the former international soccer player, George Weah.

[6] The estimates are based on available indicators of economic activity, such as revenue collections, trade data, and manufacturing production.

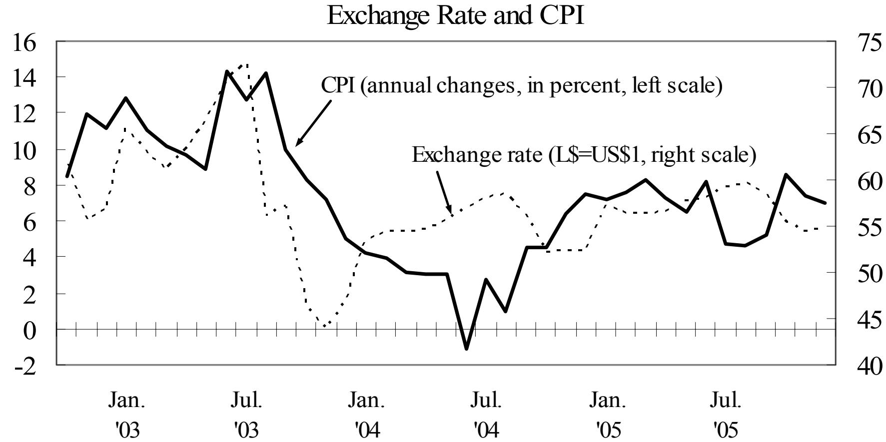
Contributions to Real GDP Growth by Sector
(In percent)



Sources: Liberian authorities; and Fund staff estimates.

6. **Price and exchange rate developments reflect the return of relative stability to Liberia**. Recently, however, there have been signs of a rise in inflation, in part reflecting higher donor expenditure. The Liberian dollar has been trading in a range of 55–60 Liberian dollars per U.S. dollar for the last 12 months.

Exchange Rate and CPI



Sources: Liberian authorities; and Fund staff estimates

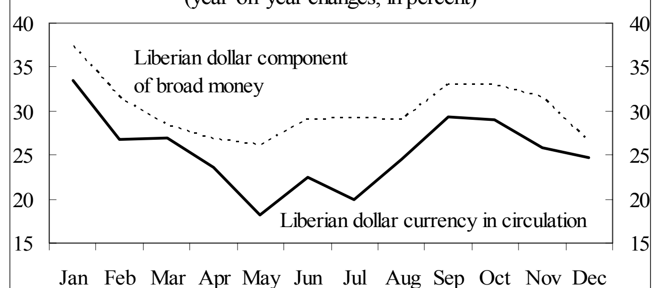
7. **The external trade deficit has increased sharply during the postconflict period to about 30 percent of GDP** (Table 2). Exports have remained depressed, mainly on account of the continued UN ban on timber and diamond exports and a gradual decline in rubber production resulting from the neglect of rubber plantations. However, a high level of imports has been sustained, driven by humanitarian aid, donor assistance, and the large presence of UNMIL officials and peacekeepers in the country. International reserves have remained at a very low level, reflecting in part the continued financial weakness of the CBL.

8. **Despite a strong recovery in both revenue and expenditure, fiscal management deteriorated markedly toward the end of the NTGL's period in office (Table 3)**. Revenue collection increased by about 3½ percent of GDP in 2004 following the end of the

conflict, and this strong recovery continued in the first half of 2005, allowing a similar expansion in total spending. However, collections slowed down significantly towards end-2005, largely reflecting a breakdown of controls in customs and the delay in implementing measures to strengthen revenue administration. At the same time, expenditure decisions were taken in a non-transparent manner, circumventing the Cash Management Committee (CMCo) which had been set up to avoid further accumulation of arrears. Excessive allotments granted for some ministries by the Bureau of the Budget and the indiscriminate issuance of vouchers by line ministries undermined a balanced cash-based budget, and sizeable domestic arrears were incurred. At end-January 2006, domestic arrears accumulated under the NTGL (excluding those to the CBL, and commercial banks) amounted to US$20 million, about 25 percent of the annual budget. In addition, the implemented budget deviated significantly from its original structure, reflecting the latitude given to the head of state to authorize such changes.

9. **The CBL succeeded in accommodating the increased demand for local currency while largely avoiding pressures on prices and the exchange rate (Table 4).** This was achieved despite a considerable increase in the supply of local currency; the year-on-year growth in the Liberian dollar currency in circulation accelerated significantly during 2005, from about 18 percent in May to nearly 30 percent in late 2005; and the Liberian dollar component of broad money growth also remained high at 26 percent in December 2005, far exceeding nominal GDP growth.

Liberian Dollar Component of Money Supply in 2005
(year-on-year changes, in percent)



Source: Central Bank of Liberia

10. **The banking sector continues to be weak**. Commercial banks remain fragile due to low profitability and poor asset quality. The CBL incurred a cash shortage on account of substantial unserviced claims on the government, and continued to draw on its international reserves to finance current outlays, resulting in a slower accumulation of foreign reserves than had been expected.

11. **Governance concerns arose under the NTGL** as new concessions and contracts, mainly in natural resource sectors, were granted in a nontransparent manner and on terms unfavorable to the Government. In addition, in 2004-05, EU-sponsored audits of the main revenue-generating agencies and an ECOWAS audit of travel expenses revealed pervasive mismanagement of public funds prior to and during the NTGL's term of office.

12. **For 2006, the economy is expected to continue to recover**, based on strong donor inflows and a revival of rural activities, following the reestablishment of security and return of refugees to their communities. Real GDP is projected to grow by about 8 percent, led by agriculture and services. Notwithstanding the large donor presence, inflation is expected to remain modest, being contained to single digits. With a gradual decline in rubber exports and further increase in donor-funded imports, the trade deficit is projected to widen further.

III. Discussion of Economic Policies

13. **The discussions took place against a background of rising expectations for the new government in the context of deep-rooted problems inherited from the past**. The new government has inherited largely dysfunctional public institutions and pervasive governance problems, as well as challenges related to rebuilding Liberia's destroyed physical and social infrastructure. Expectations among the population for visible progress are mounting while donors are insisting on significant and irreversible progress in rebuilding key government institutions and raising economic growth.

A. Recent Reform Efforts

14. **Immediately following its inauguration, the new government implemented several key steps to begin addressing long-standing problems.** These included: (i) the enforcement of pre-shipment inspections for imports and exports;[7] (ii) more prudent budget allotments for line ministries; (iii) the reestablishment of the CMCo to contain expenditures within available cash revenues; and (iv) the initiation of a review of all concessions and contracts signed by the NTGL. The CBL, while still running a cash deficit, is also taking steps to strengthen its budgetary management.

15. **The new government also formulated a comprehensive program for its first 150 days in office, in collaboration with donors.**[8] Regarding economic policy, the government specifically aims to: (i) establish sound financial management and budgeting, (ii) increase revenue and control expenditure, and (iii) implement the GEMAP.

B. Medium-Term Outlook and Policies

16. **The authorities indicated that macroeconomic policy over the medium term will be designed to support the government's reconstruction efforts, and create a stable macroeconomic environment that will facilitate private sector development.** To this end, the government will pursue balanced budgets on a cash basis for some time, reflecting domestic and external financing constraints, supported by a monetary policy geared to containing inflation.

17. **The government stressed that a key element of its strategy in the short- and medium-term would be to achieve significant progress in rebuilding key institutions, as envisaged under the GEMAP** (Box 1). This includes putting in place a functioning budgetary process, including planning, execution, internal controls, and regular reporting, as

[7] In the recent past, the pre-shipment inspections were not fully enforced on rice and petroleum imports.

[8] The program covers four broad categories: security, economic revitalization, basic services and infrastructure, and governance.

well as strengthening the main revenue-generating agencies so that they can fulfill their role in a fully transparent and accountable fashion.

18. **The authorities agreed that reestablishment of confidence in Liberia's key economic institutions and improving the business climate would be crucial** to securing sustained external support and attracting private investment, but also stressed that Liberia's reconstruction would require sustained external financial and technical assistance. To this end, the authorities have fully endorsed the GEMAP, with a view to establishing a sustained track record of economic management. Such a track record would be a prerequisite for Liberia to make progress toward normalizing relations with international financial institutions and eventually addressing its debt overhang.

19. **The authorities and the staff agreed that the main fiscal challenges are to strengthen revenue collection and improve expenditure control so as to channel available resources to poverty-reducing activities, while ensuring sufficient transparency and accountability.** In light of external and domestic financing constraints, the authorities agreed that the budget should remain balanced for some time. There is also a need to make the main revenue-generating agencies fully transparent and accountable, and channel their collections fully to the budget, as envisaged under the GEMAP.

20. **In the monetary sector, the key actions in the period ahead include strengthening the CBL and the banking system, and introducing additional monetary policy instruments to enable a more active policy over the medium term for maintaining low inflation**. Further efforts will be required to address the weak financial position of the CBL and to restructure fragile commercial banks. To expand the scope for an active monetary policy, the staff suggested that the CBL consider the development of additional instruments as the expected increase in the demand for local currency gradually widens the scope for monetary policy in the as-yet highly dollarized economy.[9]

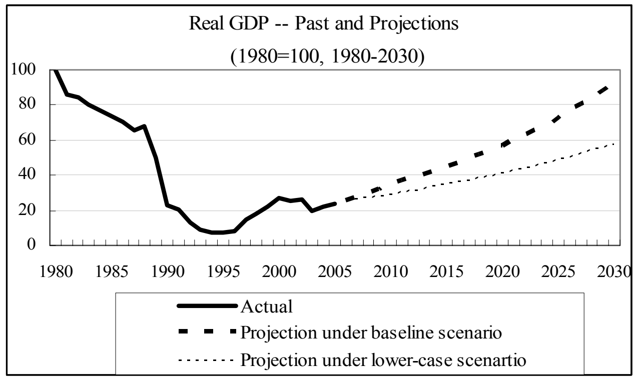
21. **The authorities pointed to Liberia's large external debt overhang as a key constraint to securing financing for their reconstruction efforts, and attracting potential foreign investment.** The staff stressed that the establishment of a strong track record of implementing reforms and prudent policies would be key to making progress toward the resolution of the debt overhang.

[9] At present, the only effective instruments are reserve requirements and foreign exchange auctions.

Box 1: Medium-Term Prospects for Liberian Economy

To illustrate the positive effects of economic reforms, the staff prepared two medium-term scenarios. The basic assumption underlying both scenarios is that the government will be pursuing prudent macroeconomic policies, but the two scenarios differ in the assumed pace of structural reforms, the scale of aid inflows, and the timing of the lifting of UN sanctions.

The "baseline scenario" assumes that strong implementation of reforms under the GEMAP will trigger significant financial and technical support from donors. In addition, the early establishment of an environment conducive to private investment and the lifting of UN sanctions on timber and diamond exports in 2007 could potentially attract large FDI flows. A strong recovery in real output growth in forestry and minerals is assumed to support higher real GDP growth of about 8 percent annually during 2006-10.



The "lower-case scenario" is premised on a slower pace of reform and lower level of donor support, which would allow only modest growth, insufficient to create significant new employment opportunities, or raise living standards. Real GDP would grow by about 4 percent annually as existing capacity is gradually brought back into production. As a consequence, the real GDP per capita would be lower by 15 percent by 2010 than under the baseline scenario. Compared with the baseline scenario, FDI flows are assumed to be lower by 2–3 percent of GDP, and inflation would also be lower, reflecting less demand pressure due to lower donor inflows.

Liberia: Medium-Term Scenarios, 2005-10
(In percent of GDP, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010
Baseline scenario 1/						
Real GDP growth (in percent)	5.3	7.7	8.0	8.3	8.4	9.6
Consumer price index (in percent, annual average)	6.9	8.0	7.5	7.0	6.5	6.0
Fiscal balance	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal revenues (including grants)	15.2	19.0	21.0	21.4	21.5	21.6
Of which: grants 2/	0.7	4.0	5.4	5.5	5.7	5.7
Current account balance (excl. grants)	-54.2	-59.3	-60.4	-54.3	-48.8	-42.3
Grant (donor transfers, net)	52.3	48.5	42.9	38.9	35.4	31.2
CBL's net foreign exchange position (in millions of U.S. dollars)	9.0	16.1	27.1	39.6	54.0	69.0
Real GDP per capita (in U.S. dollars, 2005 price)	163	171	181	191	202	216
Lower-case scenario 3/						
Real GDP growth (in percent)	5.3	7.7	3.8	3.4	4.1	5.9
Consumer price index (in percent)	6.9	8.0	6.5	6.0	5.5	5.0
Fiscal balance	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal revenues (including grants)	15.2	18.8	18.6	19.1	19.2	19.3
Of which: grants 4/	0.7	4.0	4.0	4.6	4.5	4.5
Current account balance (excl. grants)	-54.2	-60.9	-47.2	-43.2	-41.7	-35.3
Grant (donor transfers, net)	52.3	48.5	31.4	28.8	26.4	21.8
CBL's net foreign exchange position (in millions of U.S. dollars)	9.0	16.1	25.4	35.1	45.1	55.1
Real GDP per capita (in U.S. dollars, 2005 price)	163	171	174	175	178	184

Sources: Liberian authorities; and Fund staff estimates and projections.
1/ In this scenario, UN sanctions on timber are assumed to be lifted by mid-2007.
2/ A steady rise is assumed for donor inflows at about half the rate of nominal GDP growth, based on the country's extensive reconstruction needs and assumed strong policy performance that would likely elicit continued strong donor support.
3/ In this scenario, UN sanctions on timber are assumed to be lifted by mid-2009.
4/ This scenario, based on weaker policy performance, assumes donor inflows equal to two-thirds of those in the baseline.

C. Fiscal Issues

22. **The government needs to contain its expenditure within available resources under the current difficult financing environment, while persisting with efforts to strengthen revenue collection.** Current efforts to strengthen public revenues are expected to raise the ratio relative to GDP to around 15–16 percent in the coming years. This increase in revenues, together with possible donor assistance, should be channeled toward poverty reducing expenditures.

23. **In light of the crucial importance of reestablishing a functioning and transparent budget process, the discussions focused on the long-standing weaknesses of financial management and the measures to strengthen fiscal policies in the short term.** Immediate actions are needed to enhance revenue collection and strengthen expenditure control, consistent with previous technical assistance recommendations. For the remainder of the 2005/06 fiscal year,[10] the government agreed to a balanced cash budget that prioritizes expenditures in order to maintain its core functions and to ensure the clearance of recent civil service pay arrears.

24. **On the revenue side, the authorities are fully committed to implementing key revenue-enhancing measures.** They agreed with the need to strengthen the Large Taxpayer Unit (LTU), through creating an audit unit within the LTU, in order to further enhance revenue collection efficiency. From a medium-term perspective, the authorities have requested technical assistance from the Fund on tax policy reforms to broaden Liberia's revenue base and to reduce gradually its dependence on trade taxation.

25. **The staff also stressed the importance of ensuring equitable treatment of tax payers and enhancing transparency**. To this end, the authorities agreed to: (i) discontinue the current practice of allowing settlement of tax obligations through the delivery of goods or services; (ii) establish a program to address overdue tax/duty obligations; and (iii) review and rationalize the extensive list of duty exemptions. Furthermore, as envisaged under the GEMAP, transparency in resource flows from revenue-generating agencies is to be enhanced with the placement of external experts as financial controllers at these agencies.

26. **On the expenditure side, the staff emphasized the importance of strengthening commitment control, as well as proper cash management, to avoid the emergence of domestic arrears** (Box 2). The authorities agreed with this view, and committed to fully implement a comprehensive commitment control system by end-June 2006.

[10] July to June.

Box 2. Expenditure Management System in Liberia

To establish discipline in expenditure management in the context of limited local capacity, the NTGL first centralized all its accounts at the CBL, and then established a cash management system (under the CMCo), and took preliminary steps to implement an interim commitment control system in mid-2004, based on Fund technical assistance.

However, these systems failed to work as intended during the last two years, primarily owing to the lack of cooperation within the NTGL, and insufficient checks and balances within the system. Specifically, the following deficiencies were observed:

(1) Indiscriminate allotments for line ministries by the Bureau of the Budget (BoB) without consultation with the Ministry of Finance (MoF) about actual revenue collection.

(2) Commitments made by line ministries in excess of their allotments. Purchasing orders were deemed official commitments without the approval of the Bureau of General Auditing (BGA) at the MoF.

(3) Spending decisions made outside the CMCo.

The new government has committed to address these problems and take decisive actions to strengthen expenditure control, as envisaged under the GEMAP. Specifically, the following steps have been taken under the new government:

(1) The BoB shall make allotments in consultation with the MoF. The BoB is scheduled to be merged into the MoF by July 2006.

(2) The government will make a public announcement that it will certify commitments and validate all purchase orders with the BGA stamp in order to avoid over-commitments by line ministries.

(3) External experts are in place at the CMCo and the CBL with co-signatory authority to make sure no disbursements are made on the margin of the CMCo. The CMCo documents are also being publicized on the MoF's web site.

27. **The authorities agreed with the staff that any additional resources should be spent for poverty reducing expenditures.** The staff noted that progress with the reform effort is likely to attract grants, also in the form of budgetary support, once the budget process has been sufficiently strengthened. Together with higher revenue, these resources should be channeled toward basic infrastructure and social services in the context of the poverty reduction strategy that will be developed through a consultative process. The authorities indicated an intention to prepare an interim Poverty Reduction Strategy Paper (I-PRSP) by end-September 2006.

28. **To improve the budgetary process, the government intends to enhance transparency and accountability**. As a first step, the government plans to introduce new legislation by mid-2006 that would limit the discretion granted to the administration to change budget allocations without legislative approval. In addition, the budget will be posted on the website of the Ministry of Finance with regularly updated information on progress in implementation.

D. Monetary and Exchange Rate Issues

29. **The staff continues to support the CBL's monetary policy framework which has helped to hold inflation to about 7 percent in 2005.** This framework, which was formulated with MFD technical assistance, recognizes that in the highly dollarized and very open Liberian economy, the exchange rate is the main transmission mechanism through which monetary imbalances affect prices. Moreover, the CBL lacks credible monetary indicators that capture U.S. dollar liabilities. Against this background, and in view of uncertainty about the pace of increase in the demand for local currency in rural areas, the CBL will continue to use the exchange rate as an indicator of domestic monetary conditions and gear its management of Liberian dollar liquidity to maintaining broad stability in the exchange rate.

30. **The staff cautioned that trends in the demand for local currency in Liberia's highly dollarized environment should be carefully assessed.**[11] In response, the CBL noted that, for 2006, a further strengthening in the demand for Liberian dollars would be expected with a further rebound in economic activity as internally displaced persons and refugees continue to return to their rural homes, and a continued recovery in other economic activity on account of the strengthening of internal security. The staff suggested that the money supply in local currency should be cautiously expanded to maintain a broadly stable exchange rate, and also stressed that scarce foreign reserves should not be used to defend the exchange rate in the event of downward pressure due to exogenous shocks. The CBL concurred with this view.

31. **From a medium-term perspective, the staff encouraged the CBL to explore the scope for expanding an active monetary policy.** For this purpose, the CBL noted that it planned to prepare for (i) the introduction of purchase auctions of foreign exchange, (ii) the establishment of a liquidity monitoring framework, and (iii) over the medium-term, the development of money and capital markets. The staff broadly agreed with the approach but stressed that the use of securities (either government- or central bank-issued) should only be considered once the current unsustainable public debt and the weak financial position of the CBL have been fully addressed.

32. **The authorities informed the staff that a Money Management Committee had been established,** but that at this stage the Committee had been primarily engaged in administrative issues. The staff welcomed the establishment of the Committee, but urged the authorities to expand its mandate to also include responsibility for the preparation of monetary operations and the implementation of monetary policy.

33. **The banking system remains fragile and undercapitalized (Box 3).** In light of the weakness of the banking sector, the staff encouraged the CBL to continue to monitor closely developments in the banking sector, to fully implement regulatory guidelines related to credit risk management, and to develop restructuring plans for undercapitalized banks that are fully

[11] About 80-90 percent of transactions are thought to be in US dollars.

consistent with the Bank Restructuring and Resolution Policy formulated in 2005 with MFD technical assistance. The CBL noted that a resident supervisor had been placed at one bank, and that restructuring plans had already been developed for two banks. Plans for the remaining banks were expected to be developed by end-March 2006. In addition, the authorities indicated that no new bank licenses would be granted for the time being.

Box 3. Soundness of Liberia's Banking Sector

Banking Sector Financial Soundness Indicators
(In percent)

	2003	2004	2005
Capital adequacy ratio 1/	-2.0	-4.4	-2.2
Nonperforming loans to total loans	62.0	23.8	18.4
Noninterest income to total revenue	81.0	84.8	81.4
Net loans to deposits	31.0	34.0	36.3

1/ Adjusted by the Central Bank of Liberia based on its assessment.
Source: Central Bank of Liberia

Liberia's commercial banking sector consists of five operating banks (with two recently licensed); at end-2005, the overall gross assets amounted to US$129.5 million, about 24 percent of nominal GDP. Liberian banks are predominantly foreign-owned. Public sector ownership is limited to one bank with a shareholding of about 20 percent.

The banking sector is highly liquid but remains fragile. The overall risk-weighted capital adequacy ratio has been negative; the nonperforming loan ratio remained high at close to 20 percent at end-2005. The income structure is also weak, with substantial reliance on non-interest income (i.e., fees and commissions), representing around 80 percent of total revenue.

34. **The staff noted with concern the continued weakness in the financial position of the CBL, despite a significant retrenchment program in early 2005, and urged it to take steps to eliminate the cash deficit.**[12] The CBL supported this objective, but noted that that the budget for 2006 would have to accommodate commitments made by the previous management of the CBL.[13,14] The CBL agreed to target a balanced current budget (excluding the capital spending and one-off costs relating to the retirement of the previous executive management) for the remainder of the year. Furthermore, to help facilitate efforts toward prudent expenditure management, and to enhance transparency, the new management of the

[12] The government's failure to service its debts to the CBL, which are denominated in U.S. dollars, leads to the cash deficit and lower CBL net foreign assets. The level of Liberian dollar base money is unchanged. Although U.S. dollar currency in circulation in Liberia will be higher, the magnitude is small relative to the quantity of U.S. dollars in the economy.

[13] US$2.8 million was spent in end-December 2005/early January 2006 on printing new currency.

[14] Both Governor and Deputy Governor were replaced in February 2006.

CBL will commission a comprehensive external audit by auditors of international repute, with assistance expected to be provided by the EU.

CBL Budget
(In millions of U.S. dollars)

	2004 Act.	2005 Act.	2006 Proj.
Cash income	2.8	3.4	3.8
Cash expenditure	4.5	5.5	4.0
Recurrent budget balance	**(1.7)**	**(2.1)**	**(0.2)**
Capital expenditure	0.4	2.8	2.2
Overall budget balance	**(2.1)**	**(4.9)**	**(2.5)**

Source: Central Bank of Liberia.

E. Governance Issues

35. **The staff is encouraged that the GEMAP is being implemented in full collaboration with Liberia's international partners.** Regular meetings among the government and local donor representatives are being held to operationalize the GEMAP and review its implementation, while external experts have already been posted at the Ministry of Finance and the CBL, helping to ensure the full functioning of the CMCo. Other experts will be deployed at key revenue-generating agencies by mid-2006.[15]

36. **The staff discussed with the new government their plan to strengthen governance and combat corruption.** Specifically, it endorsed the government's goal of formulating a national anti-corruption strategy, drawing on the recent anti-corruption program studies by UNDP and the U.K. Department for International Development (DFID). The new government also intends to request support from international experts for help with the investigation of serious fraud, corruption and economic crimes.

37. **The staff encouraged the new government to take all steps necessary to allow for the lifting of UN sanctions on timber and diamond exports** (Box 4). The new government is currently working with key external partners toward fulfilling the conditions for a lifting of the sanctions on timber exports.

[15] Three more experts are expected at key revenue-generating agencies by end-April.

Box 4. United Nations (UN) Sanctions on Liberian Diamonds and Timber

In 2003, the UN Security Council imposed sanctions on Liberian diamond and timber exports.[16] The sanctions resulted from the recognition that revenue from the illicit trade in diamonds and timber played a major role in fueling West African conflict.

In December 2005, the Council determined that insufficient progress had been made for lifting of sanctions and renewed the measures for a further period of six months. A panel of UN experts will assess the progress made towards meeting the conditions for lifting the measures and report to the Council in June 2006.[17]

The new government is planning to take the following actions:

- **Timber**: Following a public announcement nullifying all existing forestry concessions in January 2006, the government plans to allocate future concessions using the Public Procurement and Concession Act of 2005 guidelines, which require competitive bidding. The authorities are also planning a system to establish control over forest resources.

- **Diamond**: To remove the ban on diamond exports, the authorities are planning to establish an effective Certificate of Origin regime for trade in Liberian rough diamonds that is transparent and internationally verifiable with a view to joining the Kimberly process.

F. Donor Activities and Technical Assistance

38. **Following the 2003 peace agreement, donor activities in Liberia have increased sharply.** Donor disbursements are estimated at US$460 million during 2004–2005 and projected to continue at a similar pace in 2006 (Box 5). These donor funds are spent entirely outside the government's budget. The authorities expressed concerns about the lack of budget support but recognized that past governance problems made it difficult for donors to provide resources in this form. The staff agreed that improved governance and greater transparency and accountability in the use of public resources were a precondition for budget support in the future.

[16] While diamond mining played a minor role in the economy prior to the sanctions, the timber sector constituted about 18 percent of real GDP, 5 percent of formal sector employment, and 60 percent of exports in 2002.

[17] To remove the timber sanctions, the Council called on the authorities, with the assistance of the international community, to establish transparent accounting mechanisms, to review concessions, and to promote development of sustainable forest management.

Box 5: Donor Assistance

The international community has increased its support for Liberia sharply since the 2003 peace agreement**.** According to data gathered by RIMCO (the coordinating committee for the donor-supported Results Focused Transitional Framework (RFTF)), donors disbursed a total of US$460 million in Liberia during 2004 and 2005, entirely outside the government's budget, while donor pledges and commitments were considerably larger. The US and the European Commission were the largest donors. The bulk of these funds (about three-fourths) were spent in the area of social development and community revitalization, including disarmament and demobilization and resettlement and reintegration. These figures do not include the cost of UNMIL, which is put at about US$1 billion per year, although most of this amount does not enter the Liberian economy directly.

Liberia: Humanitarian and Reconstruction Funding, 2004-2005
(In millions of US dollars)

	Pledges	Commitments	Disbursements
Security	41	10	10
Governance, Democratic Development and the Rule of Law	97	64	37
Elections	9	31	32
Social Development and Community Revitalization	640	504	373
Infrastructure	44	34	4
Economic Mangement, Development Strategy, and Coordination	51	29	3
Total	**882**	**672**	**459**

Source: RIMCO

Taking into account undisbursed commitments and based on stated donor intentions (including those of the US, the EC, and the World Bank), donor assistance, including in support of the government's 150 day plan, is expected to increase further in 2006, to about US$245 million. In addition, UNMIL peacekeepers and officials are projected to spend about US$58 million in Liberia in 2006.

Liberia: Donor Support, 2006
(In millions of US dollars)

External grants, total	**245**
of which : US	133
EC	28
WB	30
AfDB	3
Other 1/	51
UN peacekeepers and officials	58
Donor transfers, total	**303**

Source: Staff estimates

1/ Includes UNDP, Japan, UK, Germany, Sweden, Denmark, Ireland.

39. **The GEMAP also serves as a key framework to coordinate the activities of international donors to ensure effective and efficient technical assistance.** The United States provides assistance in budget preparation, and forestry management. The EU intends to focus on economic governance, based on its above-mentioned audits as well as providing support for the financial controllers of the major state-owned enterprises. The Fund and the World Bank closely coordinate their work on expenditure management. The Fund has also taken the lead in tax and customs administration and financial sector issues, while the World Bank focuses on procurement, forestry and public enterprise reform, and community-driven development.

G. Public Debt

40. **Liberia's external debt is clearly unsustainable.** According to preliminary data for end-2005, the stock of external public debt, most of which has been in arrears, amounted to US$3.7 billion in nominal terms (Table 5). At end-2005, the NPV of debt to GDP and exports ratios were 790 percent and 3,040 percent, respectively, well above the relevant debt sustainability thresholds of the LIC DSA framework (Appendix II).[18]

41. **Liberia's records on external debt were largely lost during the period of conflict.** The authorities have attempted to contact their external creditors to obtain loan documents on their external debt obligations. Responses have been incomplete, particularly regarding commercial debt as the holders of those claims are in many cases no longer the original creditors. The staff urged the authorities to make further efforts to fully reconcile their external debt data with that of creditors as this would be an essential ingredient in moving Liberia eventually to the decision point under the HIPC Initiative. The authorities indicated that they would not contract or guarantee any new public sector external debt before the debt overhang has been resolved.

42. **Liberia's debt problem is further compounded by a sizable, but uncertain, stock of domestic arrears.** The authorities estimate the stock of unverified domestic arrears at about US$0.7 billion, most of which is to the CBL and commercial banks, although there are also significant arrears on salaries and pensions and to suppliers. The staff urged the authorities to complete the verification of all outstanding domestic claims, as a precursor for the development of a domestic debt resolution strategy. Several options for domestic debt resolution have been proposed by US experts, all of which call for a substantial discount from the face value of the claims.[19] The staff noted that a strategy would need to be developed to normalize relations with creditors. It also stressed that, in light of the adverse implications for the domestic banking sector, restructuring strategies for both commercial banks and the CBL would need to be defined in advance.[20] The authorities concurred with these views.

H. Trade Regime and Competitiveness

43. **Liberia's external competitiveness has been severely eroded by the destruction of infrastructure and loss of human capital as a result of internal conflict.** Lack of reliable economic data prevents the computation of standard indicators of external competitiveness.

[18] The thresholds for a country ranked as a poor policy performer according to the World Bank's CPIA index are 30 percent and 100 percent, respectively.

[19] These options envisage a larger reduction (80-90 percent of the obligations) for larger creditors (with a claim more than US$1 million), and less for smaller creditors.

[20] In December 2005, the government debt to the commercial banks accounted for 9 percent of total assets, and for the CBL, government debt accounted for 58 percent of total assets.

The nominal exchange rate of the Liberian dollar vis-à-vis the US dollar has stabilized over the last two years. The authorities did not see domestic cost levels as a major obstacle to business activity. In their view, the lack of basic infrastructure (transport and telecommunications) and utilities (electricity, water, sanitation) presented a far more significant hurdle to commercial and export activities. They also recognized that an uncertain business climate brought on by an unstable political situation and erratic regulatory implementation discourages domestic or foreign investment. The staff agreed that the creation of a stable business environment, with predictable application of laws and regulations, would be crucial to fostering private sector development.[21]

44. **Import tariffs are set at a relatively moderate level ranging from 2.5 to 25 percent**.[22] The staff encouraged the authorities to take stock of their tariff regime and consider the benefits of regional and international trade integration. The authorities indicated a desire to harmonize Liberia's trade regime with that of ECOWAS; they saw a harmonization of goods classification with international standards as a first step in that direction. The authorities also expressed interest in seeking fast-track membership of the WTO.

I. Relations with the Fund

45. **The staff welcomed the authorities' efforts to improve relations with the Fund.** In a clear departure from the past, the commitment to policy implementation has already been illustrated through the quick steps taken to address long-standing problems in fiscal management and economic governance. Furthermore, the prospects for maintaining the current momentum in policy reforms are encouraging in view of the agreement reached on the SMP as well as the new government's strong desire to work with the international community as envisaged under the GEMAP. The staff acknowledged the authorities' intention to continue monthly token payments of US$60,000 to the Fund, as well as to make regular payments to the World Bank and the AfDB.[23] The staff explained that a continuation of regular payments and implementation of sound policies would form the basis for the Fund's Executive Board to consider whether to commence the process of de-escalating the Fund's remedial measures against Liberia.[24] Moreover, the staff noted that, if sufficient

[21] The Foreign Investment Advisory Service (FIAS) recently reported on the investment climate in Liberia, and identified several key obstacles, including (i) the large-scale informal sector which impedes fair competition, (ii) weak law enforcement, and (iii) low capacity in the public and private sector.

[22] In exceptional cases, a rate of 42.5 percent is charged. Export taxes are 2.5 percent on unprocessed goods and 4 percent on precious metals.

[23] US$25,000 per month to the former and US$15,000 to the latter.

[24] In cases of protracted arrears to the Fund, the Fund can take four main remedial measures against a member country; declaration of ineligibility; declaration of noncooperation; suspension of voting rights; and compulsory withdrawal from the Fund's membership. The

(continued)

financing assurances and resources for eventual debt relief become available, strong performance under the SMP could form a basis for a subsequent rights accumulation program (RAP), which in turn could lead to a comprehensive arrears clearance operation, a decision point under the HIPC initiative, and eventually to eligibility under the MDRI.[25]

J. Data Issues

46. **Serious data deficiencies continue to hamper surveillance.** The authorities acknowledged the need to prepare timely and reliable national income and balance of payments statistics. In January 2006, the authorities began compiling data for a new consumer price basket, which is expected to replace the previous basket in January 2007. The staff welcomed improvements in the quality of monetary statistics (also reflecting Fund technical assistance), but regretted little improvements in the reliability of fiscal information, attributable to the neglect of a monthly reconciliation exercise based on the account statements from the CBL. The authorities agreed to conduct the exercise on a regular basis.

IV. Program Risks and Monitoring

47. **Despite the authorities' stated commitment to economic reforms, considerable risks remain.** Peace and security remain fragile, and obtaining political support from the legislature will be important to support the efforts of the new government. On the policy side, the authorities will also require technical assistance from the international community to achieve some of the key structural benchmarks, including formulating strategies on domestic debt resolution and bank restructuring, and completing the review of the concessions and contracts.

48. **A committee comprising key officials will closely monitor program implementation**. Also, as indicated in the authorities' technical memorandum of understanding (TMU)(Appendix I, Attachment II), reports on program implementation will be communicated to Fund staff through the Resident Representative on a regular basis. The quantitative and structural benchmarks are specified in Tables 1 and 2 of the MEFP. The three test dates for the staff-monitored program are set at end-March, end-June, and end-September 2006.

V. Staff Appraisal

49. **As a postconflict country, Liberia faces daunting reconstruction challenges.** Government institutions have a weak capacity for economic management. Decisive and

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de-escalation of these remedial measures, however, can be considered, following a sustained period of cooperation on both economic policies and payments to the Fund and with firm prospects of its continuation.

[25] Under the current sunset clause of the enhanced HIPC Initiative, Liberia would need to have started a Fund-supported program by end-December 2006.

continued efforts are required to reduce pervasive poverty and high unemployment, and to put the country on track toward sustainable economic recovery.

50. **Liberia's recent history of policy implementation has been poor.** This has reflected limited local capacity and a lack of political will to address long-standing governance problems. While the NTGL agreed to the GEMAP, it is regrettable that economic governance and fiscal management continued to deteriorate further toward the end of the NTGL's period in office. As a consequence, the new government has inherited a severely mismanaged economy, characterized by endemic corruption and dysfunctional public institutions.

51. **Rebuilding Liberia's economy and reducing pervasive poverty requires immediate and decisive action**. In particular the authorities should focus on reestablishing an effective budget process and strengthening capacity in key economic institution to improve economic governance. The new government's endorsement of the GEMAP is welcome, and it is important that GEMAP experts are quickly put in place for the program to become fully operational.

52. **The staff is encouraged that the new government has already implemented several important measures to address long-standing governance problems.** Key recent actions include rigorous enforcement of pre-shipment inspections for imports and exports, more prudent budget allotments for line ministries, and reestablishment of the CMCo to contain expenditures within available cash revenues.

53. **Effective implementation of the public expenditure management framework is critical to channel scarce resources to their most effective uses.** In view of past problems, it is imperative that the Bureau of the Budget is brought into the Ministry of Finance, that the interim commitment control system is fully implemented so that only purchase orders with the Bureau of General Accounting's seal are considered valid, and that legislation is enacted to limit the power of the administration to change budget priorities and allotments between line ministries without prior legislative approval. These actions will provide greater certainty to line ministries and allow the CMCo to work effectively, so as to ensure that government spending is limited to available cash and that domestic arrears are not incurred.

54. **Raising the level of fiscal revenues is imperative if the government is to start meeting the most critical needs of the Liberian people.** Key steps include: continuation of rigorous enforcement of pre-shipment inspections; maintaining security at the port, ensuring that all duties are paid, including on rice and petroleum; and reviewing the numerous tax and duty exemptions granted by the NTGL.

55. **Liberia requires continued strong support from the international donor community.** The authorities' 150 day plan represents an important reform agenda, which aims to start irreversible change through rebuilding key government institutions, maintaining and strengthening security, and meeting some of the urgent needs of the population. Looking ahead, it will be important for the government to initiate a consultative process for the development of a poverty reduction strategy focusing on the maintenance of macroeconomic stability, the provision of basic social services, and strengthening the climate for private

sector development and investment. Strengthening public expenditure management systems and governance will be essential to permit an increasing share of donor support to be channeled through the budget.

56. **The staff considers that the current monetary policy framework, aiming to contain inflation by maintaining a stable exchange rate, continues to be appropriate in view of the high degree of dollarization of the domestic economy, and in the absence of other credible monetary indicators.** However, the authorities should stand ready to accommodate increased demand for the Liberian dollar, and should not use scarce foreign exchange reserves to defend the exchange rate in the event of downward pressure due to exogenous shocks.

57. **The staff is concerned that the CBL has been drawing on its reserves to finance its cash deficit.** However, the new CBL management's resolve to strengthen the CBL's financial position is encouraging. This will require ensuring that staffing and capital spending costs are strictly controlled, as well as effectively implementing the recently introduced procurement guidelines that apply to all the public institutions. It is important to move as quickly as possible to a balanced budget in the CBL's operations, both in view of the very low level of official reserves, the liquidity impact of a cash deficit, and because of the need to secure support for the eventual restructuring of the CBL.

58. **The staff welcomes the new government's resolve to address long-standing economic governance concerns, as envisaged under the GEMAP.** Specifically, it is important to develop quickly a national anti-corruption strategy and a domestic debt resolution strategy in collaboration with international partners. It will also be critical to make fast progress in fulfilling the requirements for the lifting of UN sanctions, which would have a significant and positive impact on economic activity and government revenues.

59. **There is a critical need to build on the first encouraging steps to reconstruct a core statistical database to enable effective economic policy making**. The authorities should seek further technical assistance from external partners in this area, especially on the national accounts, consumer price index, and balance of payments, as well as basic data on social indicators. To help reconstruct the statistical database, the Fund is planning to extend further technical assistance in the areas of fiscal and monetary operations.

60. **The staff is encouraged by the government's enthusiasm and determination to implement a policy of zero tolerance for corruption and to strengthen the effectiveness of public institutions.** However, past experience has shown the difficulty of implementing new measures in an environment of highly constrained resources and capacities. The staff therefore urges the authorities to ensure that each government agency cooperates fully in bringing to fruition these systemic improvements. Effort also needs to be made to utilize the available technical assistance effectively so that capacity is developed in ministries to transform current plans in these areas into reality.

61. **The SMP is centered on ambitious macroeconomic and structural benchmarks.** This program also provides a window of opportunity to make progress toward the eventual resolution of Liberia's debt overhang. Satisfactory implementation of the SMP would

provide a basis for the Fund to consider the de-escalation of the remedial measures that the Fund has imposed on Liberia. Moreover, if sufficient indications of support from donors are forthcoming, strong performance under the SMP could form a basis for a subsequent program, which in turn could lead to the eventual resolution of Liberia's debt overhang.

62. **It is proposed to hold the next Article IV consultation on the standard 12-month cycle.**

Table 1. Liberia: Selected Economic and Financial Indicators, 2002-06

	2002 Est.	2003 Est.	2004 Est.	2005 Est.	2006 Proj.
	(Annual percentage change, unless otherwise indicated)				
National income and prices					
Real GDP	3.7	-31.3	2.6	5.3	7.7
Consumer prices (annual average) 1/	14.2	10.3	3.6	6.9	8.0
Consumer prices (end of period) 1/	11.1	5.0	7.5	7.0	8.0
Nominal GDP (in millions of U.S. dollars)	559	435	497	548	624
GDP deflator (in U.S. dollars)	-0.7	13.3	11.3	4.9	5.7
External sector (in U.S. dollar terms)					
Exports of goods, f.o.b.	30.1	-34.5	-4.7	8.0	2.3
Imports of goods, f.o.b.	-6.3	-3.6	91.4	2.1	13.6
Terms of trade	20.3	21.1	4.9	3.1	2.9
Official exchange rate (Liberian dollars per U.S.dollar; end of period)	65.0	50.5	54.5	56.5	...
Central government operations					
Total revenue and grants	4.7	-34.7	45.7	20.3	42.8
Of which : tax revenue	15.8	-39.0	49.4	13.3	16.9
Total expenditure and net lending	9.2	-44.0	58.1	14.7	46.1
Of which : current expenditure	-36.2	-6.0	150.1	17.7	19.3
capital expenditure	65.7	-62.2	-51.9	-3.6	249.7
Money and banking (stocks, in billions of Liberian dollars)					
Net foreign assets	-36.8	-30.3	-44.6	-49.2	-51.1
Net domestic assets	39.7	33.5	49.3	55.5	58.5
Net domestic credit	54.5	45.6	63.0	69.8	72.6
Net claims on government	52.3	43.6	60.3	66.6	69.9
Net claims on nongovernment	2.2	2.0	2.7	3.2	2.7
Other items, net	-14.8	-12.1	-13.7	-14.2	-14.1
Broad money (rate of growth) 2/	n.a.	8.3	49.3	35.7	16.2
Velocity (GDP relative to broad money)	12.5	6.6	5.8	4.9	4.8
	(In percent of GDP)				
Central government operations (January-December)					
Total revenue and grants	13.0	10.9	13.9	15.2	19.0
Of which : total revenue	13.0	10.2	13.7	14.5	15.0
Total expenditure and net lending	14.3	10.3	14.3	14.8	19.0
Of which : current expenditure	4.6	5.6	12.3	13.1	13.7
capital expenditure	9.7	4.7	2.0	1.7	5.3
Overall fiscal balance (cash basis)	-1.3	0.6	0.0	0.0	0.0
External sector					
Current account balance, including grants (deficit, -)	-3.4	-18.2	-13.2	-1.9	-10.8
Of which : public interest payments due	-11.2	-12.1	-12.8	-14.9	-15.9
Current account balance, excluding grants (deficit, -)	-11.0	-22.7	-51.3	-54.2	-59.3
Trade balance (deficit, -)	3.8	-7.1	-33.1	-29.4	-31.4
Exports, f.o.b.	29.8	25.0	20.9	20.5	18.4
Imports, f.o.b.	-26.0	-32.2	-54.0	-49.9	-49.8
Public sector external debt outstanding (total)	545.5	772.8	751.9	667.3	605.4
	(In millions of U.S. dollars, unless otherwise indicated)				
Current account balance including grants (deficit, -)	-19.2	-79.2	-65.5	-10.3	-67.4
Trade balance (deficit, -)	21.1	-31.1	-164.2	-161.4	-195.9
CBL's net foreign exchange position	0.5	-0.3	3.8	9.0	16.1
(in months of imports of goods and services)	0.0	0.0	0.1	0.3	0.5

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

1/ Technical adjustments are made to the CPI for 2004 and 2005 in light of the replacement of some items subject to CPI survey in mid-2004.

2/ Defined as Liberian currrency outside banks plus demand, time, and savings deposits in Liberian and U.S. dollars.

Table 2. Liberia: Balance of Payments, 2002-10
(In millions of U.S. dollars, unless otherwise indicated)

	2002 Est.	2003 Est.	2004 Est.	2005 Est.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj.	2010 Proj.
Trade balance	21	-31	-164	-161	-196	-213	-219	-215	-194
Exports, f.o.b.	166	109	104	112	115	127	147	182	242
Of which : rubber	59	44	93	99	98	89	79	71	68
timber	100	55	0	0	0	13	39	81	141
Imports, f.o.b	-145	-140	-268	-274	-311	-340	-366	-397	-436
Petroleum	-48	-30	-66	-91	-110	-120	-126	-134	-145
Rice	-30	-39	-28	-25	-28	-30	-32	-34	-36
Donor + FDI related	-20	-19	-106	-150	-159	-161	-166	-172	-180
Other	-47	-52	-68	-8	-14	-29	-42	-57	-75
Services (net)	3	-17	-46	-48	-62	-73	-70	-71	-74
Income (net)	-107	-78	-98	-112	-132	-157	-159	-167	-178
Of which: public interest payments due	-63	-53	-64	-82	-100	-105	-110	-114	-119
Current transfers (net)	63	47	243	311	323	320	327	334	334
Donor transfers (net)	43	20	189	287	303	300	307	314	314
Private transfers (net)	21	27	53	24	20	20	20	20	20
Current account balance	-19	-79	-66	-10	-67	-123	-121	-119	-112
Current account balance, excluding grants	-62	-99	-255	-297	-370	-423	-428	-433	-426
Capital and financial account	-14	-26	-29	-13	-42	12	9	7	-1
Official financing	-22	-20	-20	-19	-19	-19	-19	-15	-9
Disbursements	0	0	0	0	0	0	0	0	0
Amortization	-22	-20	-20	-19	-19	-19	-19	-15	-9
Private financing	7	-6	-9	6	-23	31	28	22	8
Direct foreign investment	3	0	0	6	12	19	26	33	40
Other investment (incl. trade credit)	5	-6	-9	0	-35	12	2	-11	-32
Errors and omissions	-47	36	22	-71	0	0	0	0	0
Overall balance	-81	-69	-73	-94	-109	-110	-113	-112	-113
Financing	81	69	73	94	109	110	113	112	113
Change in official reserves (increase -)	-3	-4	-11	-7	-10	-14	-16	-17	-15
Arrears (accrual +) 1/	84	73	84	101	118	124	129	129	128
Use of Fund credit (net change in arrears)	9	8	10	10	11	11	11	11	11
Increase in non-Fund arrears	75	65	74	91	107	113	118	118	117
Memorandum items:									
Current account balance (in percent of GDP):									
Including grants	-3.4	-18.2	-13.2	-1.9	-10.8	-17.5	-15.4	-13.4	-11.1
Excluding grants	-11.0	-22.7	-51.3	-54.2	-59.3	-60.4	-54.3	-48.8	-42.3
Excluding grants and public interest payments due	0.2	-10.6	-38.4	-39.3	-43.3	-45.4	-40.4	-35.9	-30.4
Trade balance (in percent of GDP)	3.8	-7.1	-33.1	-29.4	-31.4	-30.4	-27.8	-24.2	-19.2
Public sector external debt (medium and long term)									
Debt outstanding, including arrears	3,051	3,364	3,735	3,659	3,780	3,906	4,036	4,165	4,284
(in percent of exports of goods and services)	1,464	2,420	2,742	2,573	2,646	2,500	2,144	1,784	1,410
(in percent of GDP)	546	773	752	667	605	558	512	469	425
Debt service charges	84.4	72.9	84.1	100.6	118.2	123.7	128.7	129.2	128.1
(in percent of GDP)	15.1	16.7	16.9	18.3	18.9	17.7	11.7	11.7	11.7
Terms of trade (1997=100)	107.5	130.2	136.7	140.9	145.0	137.0	130.2	122.7	123.7
CBL's net foreign exchange position	0.5	-0.3	3.8	9.0	16.1	27.1	39.6	54.0	69.0
CBL's net foreign exchange position (in months of imports of goods and services)	0.0	0.0	0.1	0.3	0.5	0.7	1.0	1.2	1.4
CBL's net foreign exchange position (in months of non-donor imports)	0.0	0.0	0.2	0.5	0.8	1.2	1.5	1.9	2.1
GDP at current prices	559	435	497	548	624	700	788	887	1,007

Sources: Liberian authorities; and Fund staff estimates and projections.
1/ Apart from token payments to international financial institutions, Liberia is not servicing is external debt..

Table 3. Liberia: Summary of Central Government Operations, 2002-06

	2002	2003	2004	2005	2005 Jan.-Jun.	2005 Jul.-Dec.	2006 Proj.
			(In millions of U.S. dollars)				
Total revenue and grants	72.7	47.5	69.2	83.3	47.2	36.1	118.9
Tax revenue	70.3	42.9	64.1	72.6	42.4	30.3	84.9
Maritime revenues	13.4	13.2	13.5	8.9	6.0	2.9	12.0
Stumpage fees and land rental	13.0	1.8	0.1	0.0	0.0	0.0	0.0
Taxes on international trade	17.0	14.6	25.9	29.3	16.1	13.3	33.7
Goods and services tax	3.5	4.1	3.9	3.7	1.8	1.9	4.3
Petroleum sales tax	6.0	2.3	0.9	0.8	0.8	0.0	0.9
Income tax and others	17.5	6.8	19.8	29.9	17.7	12.1	34.0
Nontax revenue	2.4	1.6	4.1	6.7	4.9	1.8	9.0
Grants	0.0	3.0	1.0	*4.0*	*0.0*	*4.0*	25.0
Budget support	...	3.0	1.0	...	...	...	0.0
Project	...	...	...	4.0	...	4.0	25.0
Total expenditure and net lending (cash basis)	80.1	44.9	70.9	81.4	44.1	37.3	118.9
Current expenditure	26.0	24.4	61.1	71.9	40.7	31.2	85.7
Wages and salaries 1/	13.4	11.1	27.2	31.5	21.7	9.8	28.8
Goods and services	5.9	6.8	25.7	23.1	14.2	8.9	37.1
Interest on debt	6.3	6.0	2.5	1.8	0.8	1.0	2.3
External	0.6	0.2	0.5	0.7	0.4	0.3	1.2
Domestic	5.7	5.8	2.0	1.1	0.4	0.7	1.1
Domestic arrears clearance	...	...	...	8.0	...	8.0	10.0
Subsidies, transfers, and net lending	0.4	0.5	5.7	7.5	4.0	3.5	7.6
Capital expenditure 1/	54.1	20.4	9.8	9.5	3.3	6.1	33.2
Internally financed	54.1	20.4	9.8	9.5	3.3	6.1	8.2
Externally financed	0.0	0.0	0.0	0.0	0.0	0.0	25.0
Statistical discrepancies	...	0.0	1.7	-1.9	-3.2	1.2	0.0
Overall surplus or deficit	-7.3	2.6	0.0	0.0	0.0	0.0	0.0
			(In percent of GDP, unless otherwise indicated)				
Total revenue and grants	13.0	10.9	13.9	15.2	17.2	13.2	19.0
Total revenue	13.0	10.2	13.7	14.5	17.2	11.7	15.0
Grants	0.0	0.7	0.2	0.7	0.0	1.5	4.0
Total expenditure and net lending	14.3	10.3	14.3	14.8	16.1	13.6	19.0
Current expenditure	4.6	5.6	12.3	13.1	14.9	11.4	13.7
Of which: wages and salaries	2.4	2.6	5.5	5.7	7.9	3.6	4.6
Capital expenditure 1/	9.7	4.7	2.0	1.7	1.2	2.2	5.3
Overall surplus or deficit	-1.3	0.6	0.0	0.0	0.0	0.0	0.0

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

1/ Includes military outlays.

2/ At end-2003, government had a net cash deposit of US$4.7million..

Table 4. Liberia: Monetary Survey, 2002-2006
(In millions of Liberian dollars, end of period; unless otherwise indicated)

	2002 Dec.	2003 Dec.	2004 Dec.	2005 Jun.	2005 Dec.	2006 Dec. Proj.
Net foreign assets	-36,812	-30,335	-44,646	-49,287	-49,161	-51,100
Of which : Fund credit and overdue charges	-36,607	-30,579	-45,998	-51,029	-51,422	-53,478
Of which : CBL's gross foreign reserves	214	370	1,019	1,293	1,432	1,897
assets corresponding to Government U.S. dollar denominated deposits at CBL	4	305	134	246	70	0
assets corresponding to commercial banks' U.S. dollar deposits at CBL	177	80	680	691	853	980
CBL's net foreign exchange position	33	-15	205	356	510	916
Net domestic assets	39,710	33,473	49,333	54,720	55,523	58,494
Net domestic credit	54,488	45,594	63,003	69,268	69,752	72,643
Net claims on government	52,261	43,597	60,343	66,334	66,594	69,923
Of which : Fund credit and overdue charges	36,607	30,579	45,998	51,029	51,422	53,478
Claims on private sector	1,171	1,136	1,651	1,854	2,066	2,375
Claims on public enterprises	86	59	106	202	236	236
Claims on nonbank financial institutions	105	86	187	103	109	109
Other items, net	-14,777	-12,120	-13,669	-14,548	-14,229	-14,149
Monetary aggregates						
Currency outside banks (Liberian banknotes and coins only)	1,045	1,304	1,755	1,735	2,169	2,575
Commercial banks' reserves at Central Bank of Liberia 1/	203	152	142	323	230	155
Of which : required reserves	203	132	111	115	155	155
Reserve Money (in billions of Liberian dollars) 2/	1,327	1,561	2,050	2,220	2,609	3,016
Commercial bank deposits 3/	1,853	1,835	2,932	3,697	4,193	4,819
Total demand deposits	1,318	1,391	1,972	2,257	2,702	3,105
Liberian dollar denominated deposits	168	137	184	219	221	253
U.S. dollar denominated deposits	1,150	1,254	1,788	2,038	2,481	2,852
Time, savings, and other deposits	535	444	960	1,440	1,491	1,714
Liberian dollar denominated deposits	94	160	260	340	392	450
U.S. dollar denominated deposits	441	284	700	1,100	1,099	1,263
Broad money (M2) 4/	2,898	3,139	4,687	5,433	6,362	7,394
Liberian dollar component	1,307	1,601	2,199	2,294	2,781	3,279
U.S. dollar component	1,591	1,538	2,488	3,139	3,581	4,115
Memorandum items:						
U.S. dollar component broad money (excluding banknotes, in millions of U.S. dollars)	24.5	30.5	45.7	53.7	63.4	72.2
U.S. dollar component of broad money (In percent of broad money, excluding banknotes)	54.9	49.0	53.1	57.8	56.3	55.7
U.S. dollar denominated demand deposits (in millions of U.S. dollars)	17.7	24.8	32.8	34.8	43.9	50.0
U.S. dollar denominated time, saving, and other deposits (in millions of U.S. dollars)	6.8	5.6	12.8	18.8	19.5	22.2
Broad money (annual change)	...	8.3	49.3	50.9	35.7	16.2
Liberian dollar component broad money (annual change, in percent of beginning period broad money)	...	10.1	19.0	14.4	12.4	7.8
U.S. dollar component broad money (annual change, in percent of beginning period broad money)	...	-1.8	30.3	36.5	23.3	8.4
CBL's net foreign exchange position (in millions of U.S. dollars)	0.5	-0.3	3.8	6.1	9.0	16.1
Money Multiplier	2.2	2.0	2.3	2.4	2.4	2.5
Velocity (GDP relative to broad money)	12.5	6.6	5.8	5.7	4.9	4.8
Currency/deposits (in percent; Liberian dollars only)	383	554	395	311	354	366
Nominal GDP (millions of Liberian dollars; annualized basis)	36,353	21,983	27,075	30,984	30,984	35,610

Sources: Liberian authorities; and Fund staff estimates.

1/ Derived from commercial banks' balance sheets (Liberian dollar denominated).
2/ Liberian dollar currency outside banks and commercial banks reserves (Liberian dollar denominated) held at central bank.
3/ One bank has been excluded from the deposit since May 2003.
4/ Excluding U.S. dollar in circulation

Table 5. Liberia: External Public Debt, 2001-05 [1/]
(In millions of U.S. dollars)

	2001	2002	2003	2004	2005
Total stock outstanding	**2,964**	**3,051**	**3,364**	**3,735**	**3,659**
Multilateral institutions	**1,313**	**1,390**	**1,572**	**1,672**	**1,611**
IMF	621	668	739	784	740
World Bank	407	422	499	539	530
AfDB	206	220	250	262	255
IFAD	19	20	20	21	21
OPEC Fund	21	22	22	23	23
BADEA	18	18	18	18	18
EIB	13	15	18	20	19
ECOWAS Fund	4	4	4	4	4
European Union	2	2	2	2	2
Bilateral	**712**	**689**	**792**	**1,028**	**955**
Paris Club	633	612	729	894	833
United States	317	313	325	332	358
Germany	137	112	205	250	232
United Kingdom	63	60	46	91	76
Japan	68	78	80	90	56
Denmark	10	12	24	28	17
France	8	6	12	16	16
Italy	6	7	9	57	51
Norway	9	9	12	14	9
Sweden	9	9	9	9	9
Other	6	6	7	7	10
Non-Paris Club	79	77	63	134	122
China	28	27	10	10	8
Kuwait	9	9	10	10	7
Saudi Arabia	25	24	26	26	18
Taiwan	17	17	17	88	89
Commercial	**882**	**915**	**943**	**977**	**1,033**
Suppliers' Credit	**56**	**57**	**57**	**58**	**60**

Source: Liberian authorities and Fund staff estimates.

1/ Data has been revised to reflect recent information on multilateral debt and to include estimates of interest arrears and late interest charges.

Table 6. Liberia: Core Set of Financial Soundness Indicators, 2003-2005
(In percent, unless otherwise indicated)

	2003 Dec	2004 Dec	2005 Dec
Number of banks	3	3	5
Capital adequacy			
Regulatory capital to risk-weighted assets 1/	-2.0	-4.4	-2.2
Asset quality			
Nonperforming loans to total loans	62.0	23.8	18.4
Loan loss provisions to nonperforming loans	94.0	79.0	69.6
Loan concentration	100.0	100.0	100.0
Agriculture	9.2	8.0	10.6
Mining and Quarrying	0.0	0.0	0.1
Manufacturing	0.4	0.7	0.5
Construction	2.6	2.3	2.7
Transportation, Storage and Communication	0.2	1.8	4.4
Trade, Hotels and Restaurants	10.0	19.1	13.5
Others	77.7	68.0	68.1
Of which: Government of Liberia	28.4	25.6	27.2
Of which: Central Bank of Liberia	30.7	27.7	26.8
Earnings and profitability			
Return on assets	-24.0	-3.0	0.6
Return on equity	-32.5	-32.6	5.7
Noninterest income to total income	81.0	84.8	81.4
Net interest margin	2.0	1.4	1.8
Liquidity			
Liquid assets to net assets	51.0	40.0	58.2

Source: Central Bank of Liberia.

1/ Adjusted by the CBL.

Monrovia, April 12, 2006

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

Dear Mr. de Rato,

As you know, the Liberian economy has suffered significant setbacks during the past fifteen years on account of civil conflicts, and economic mismanagement by successive governments. The task of reconstructing the Liberian economy is immense, but we believe that we will succeed in this important undertaking.

A key element of the government's strategy is to demonstrate a decisive departure from historical practices in order to maintain public support for the difficult challenges that lie ahead. In support of this, the Liberian government is committed to implementing an economic and financial program to be monitored by IMF staff for the period through September 2006, with a view to commencing the task of rebuilding key public institutions, restoring credible financial management, and accelerating structural reforms. Such a program should facilitate our dialogue with multilateral and bilateral donors and the eventual de-escalation of the remedial measures previously imposed by the IMF on Liberia. We also hope that the successful execution of the program would pave the way toward a subsequent Fund-supported arrangement and eventually lead to the resolution of Liberia's debt overhang.

The policies and measures set forth in the attached memorandum (Attachment I) reflect the understandings reached with the IMF staff during the February 2006 Article IV mission, which we believe can achieve the objectives of the program. We will, however, take any additional measures that may become necessary for this purpose. We will remain in close consultation with IMF staff on the adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. The government will provide the IMF staff with all information that it requests to assess the implementation of the staff-monitored program. A Technical Memorandum of Understanding defining the indicative targets of the staff-monitored program and the data to be reported is also attached (Attachment II).

Sincerely yours,

/s/	/s/
Joseph Mills Jones	Antoinette M. Sayeh
Governor of the CBL	Minister of Finance

Attachments: Memorandum on Economic and Financial Policies
Technical Memorandum of Understanding
Summary on the Governance and Economic Management Assistance Program (GEMAP)

Liberia

Memorandum on Economic and Financial Policies

The Government's Economic Program
for the period February – September 2006

I. INTRODUCTION

1. Following the signing of the peace agreement in Accra, the National Transitional Government of Liberia (NTGL) took office in October 2003. In parallel, the UN established a peace-keeping mission in Liberia (UNMIL), and security in the country gradually improved. Economic management, however, did not improve due to the lack of cooperation within the NTGL. Presidential elections in October and November 2005 took place in a relatively secure environment. Mrs. Ellen Johnson-Sirleaf, who won the run-off election on November 8, was inaugurated as President of Liberia on January 16, 2006. The new government inherited a severely mismanaged economy, characterized by endemic corruption and dysfunctional public institutions. The new government is formulating a "150-day plan" of priority short-term reforms and deliverables. The plan is fully consistent with the Governance and Economic Management Assistance Program (GEMAP)[1], and underpins the economic program for the period February-September 2006 described in this Memorandum on Economic and Financial Policies (MEFP) that will be monitored by the staff of the IMF. The key features of the GEMAP are described in Attachment III.

II. CURRENT ECONOMIC SITUATION

2. Liberia's recent history has left deep marks on the population and economy. Poverty is pervasive; real GDP per capita (in 2005 prices) is estimated to have declined by almost 90 percent from US$1,269 in 1980 to US$163 in 2005; unemployment is estimated to be over 80 percent; a large share of the population was displaced by conflict; the most recent household survey, conducted by the United Nations Development Program (UNDP) in 2000, indicated that 76 percent of the population was living on less than US$1 per day; malnutrition and disease, including tuberculosis, cholera, malaria, and yellow fever are prevalent; and about one-fourth of infants die before reaching the age of 5. Liberia's HIV/AIDS prevalence rate is estimated at about 10-12 percent. The destruction of both physical infrastructure (roads, railways, electricity and water, and telecommunications) and human capital (through armed conflict, emigration, lack of access to education, and poor health) have serious consequences for Liberia's growth potential. In addition, efforts to

[1] Prior to the elections, the NTGL agreed with key international partners on a long-term international assistance program to strengthen governance and financial management in light of increasing concerns over public financial management and the indiscriminate granting of concessions for Liberia's timber and mineral sectors.

formulate and implement consistent macroeconomic policy is severely hampered by the lack of management capacity in government institutions and accurate and timely data.

3. Economic developments in 2003-2005 closely mirror political events; driven by domestic instability and a UN ban on exports of timber and diamonds[2], real GDP declined by about 31 percent in 2003. Real output growth is estimated to have been 2.6 percent and 5.3 percent respectively in the subsequent two years in line with the gradual improvement in security in rural areas, and restoration of activity in those sectors benefiting from donor assistance (mainly the service sector). The volatility in prices and the exchange rate declined following the cessation of hostilities in mid-2003. Recently, however there have been signs of a rise in prices, in part reflecting higher donor expenditure. The exchange rate vis-à-vis the U.S. dollar has returned to preconflict levels (following a depreciation of about 23 percent in 2002), and is currently trading in a range of 55–57 Liberian dollars per U.S. dollar.

4. Fiscal management deteriorated markedly toward the end of the NTGL's period in office. Revenue collection stagnated towards end-2005, largely reflecting a breakdown of controls in customs, while expenditure decisions were taken in a non-transparent manner, circumventing the Cash Management Committee (CMCo) which had been established earlier. Excessive allotments granted for some ministries by the Bureau of the Budget and the indiscriminate issuance of vouchers by line ministries undermined a balanced cash-based budget. As a result, sizeable domestic arrears were accumulated. At end-January 2006, domestic arrears accumulated under the NTGL (excluding those to the Central Bank of Liberia (CBL) and commercial banks) amounted to US$20 million, about 25 percent of the annual budget.

5. Governance concerns arose as new concessions and contracts, mainly in the mineral sectors, were granted in a nontransparent manner and on unfavorable terms. In addition, in 2004–05, EU-sponsored audits of the main revenue-generating agencies and an ECOWAS audit on travel expenses also revealed pervasive mismanagement of public funds prior to and during the transitional government's term of office.

6. The banking sector continues to be weak. Commercial banks remain fragile due to low profitability and poor asset quality. Nevertheless, operating banks are liquid, reflecting an increase in donor-related deposits and the low demand for loans from the private sector in the fragile economic environment. The CBL, incurring an income shortfall on account of substantial unserviced claims on the government, has drawn on its international reserves to finance outlays, resulting in a slower accumulation of foreign reserves than had been expected.

7. The external environment remains difficult, even though donor assistance has increased to levels substantially higher than during the pre-conflict era. While imports almost

[2] The UN sanctions were imposed because of the role which proceeds from these sectors played in fueling conflict in the region and of concerns over the gross mismanagement of economic resources.

doubled in 2004, and remained at that level in 2005, exports have remained at low levels on account of the UN ban on the export of timber and diamonds. The overall balance of payments deficit rose further in 2004 and 2005, financed largely by a further accumulation of external payments arrears. Liberia's external debt has been in arrears for more than two decades, and is unsustainable; at end-2005, the ratio of debt to exports was estimated at about 3,040 percent, while the ratio of debt to GDP amounted to about 790 percent.

III. The Government's Economic Program: February – September 2006

8. Following about fifteen years of intermittent civil war, Liberia faces daunting challenges to put in place a policy framework that will support economic recovery, and begin to address the pervasive poverty. To meet these challenges, the government established the Liberia Reconstruction and Development Committee (LRDC) to implement a broad development strategy under four pillars: (i) economic revitalization; (ii) infrastructure and basic services; (iii) governance and the rule of law; and (iv) security. A key element of the government's strategy in the short run will be to achieve significant progress in rebuilding key government institutions**.** It will aim to: (i) re-establish a functioning budgetary process (planning, execution, internal and external controls, and regular reporting); (ii) rebuild the main revenue-generating agencies so that they can fulfill their role in a fully transparent and accountable fashion; and (iii) make the operations of the CBL and the banking system fully market-based and transparent. To this end, the government has already implemented a number of important measures to improve public finance management and enhance transparency, including: (i) fully enforcing pre-shipment inspections by the pre-shipment verification company, BIVAC; (ii) ensuring prudent allotments by the Bureau of the Budget for line ministries in collaboration with the Ministry of Finance; (iii) reestablishing the CMCo to contain spending commitments within available cash revenues; and (iv) developing a plan for reviewing all concessions and contracts signed by the NTGL, and placing a moratorium on awarding new concessions until a transparent bidding process has been established.

9. The government's program assumes effective implementation of the GEMAP, prudent macroeconomic policies, the gradual revitalization of exports once UN sanctions are lifted, and post-war reconstruction. Real GDP is projected to grow by around 7–8 percent in 2006. Average annual inflation is projected to remain modest at around 8 percent, anchored on a stable exchange rate. The trade deficit is projected to widen further as the growth of donor-financed imports rise by more than exports. Official reserves, are projected to increase modestly, with the cover of non-donor financed imports rising from 0.5 months at end-2005 to 0.8 months at end-2006. Given Liberia's resource constraints and low level of income, restoration of physical infrastructure and achieving sustained high economic growth will require substantial external support for an extended period.

10. The government will also initiate the development of a poverty reduction strategy aimed at restoring basic social services, and addressing the "Monrovia-bias" that fueled the civil conflict. In this context, the government will prepare an interim Poverty Reduction Strategy Paper (I-PRSP) by end-September 2006.

A. Fiscal Policy

11. The challenge for the government is to convince Liberians and Liberia's development partners that the country's scarce resources are being used efficiently to rebuild the economy and to start addressing pressing social needs. To this end the government will focus on the rebuilding of fiscal institutions to enhance revenue collection, and to strengthen public expenditure management. Recognizing Liberia's significant public debt burden, the government will pursue a balanced budget for the foreseeable future; deficit spending will only occur to the extent that external donor support on grant terms becomes available (see Table 1).

12. The government will implement a broad range of reforms to enhance the efficiency of revenue collection and broaden the tax base (see Table 2). These reforms include enforcing pre-shipment inspections for imports and exports and strengthening the Large Taxpayer Unit. In addition, the government will establish a program to address overdue tax/duty obligations. Furthermore, as envisaged under the GEMAP, transparency of resource flows from revenue-generating agencies is expected to be considerably enhanced with assistance from the external experts at five revenue generating agencies (namely the National Port Authority (NPA), Roberts International Airport (RIA), the Liberia Petroleum Refining Corporation (LPRC), the Forestry Development Agency (FDA), and the Bureau of Maritime Affairs (BMA)).[3] The government will integrate the Bureau of the Budget and the Bureau of Maritime Affairs into the Ministry of Finance by end-June 2006. With technical assistance on tax policy from the IMF, the government will also aim to shift gradually revenue from the current trade-based structure to domestic activities.

13. On the expenditure side, the government will ensure that adequate expenditure controls are in place. With assistance from external experts at the Ministry of Finance (MoF) and the CBL, the CMCo will ensure that spending decisions are made within actual revenue collections (to avoid the reemergence of cash deficits) and follow prioritized cash plans for all ministries and institutions. The government will also continue to utilize technical assistance from the IMF, World Bank and others to strengthen public expenditure management capacity, including through the implementation of an interim commitment control system. In addition, the government will ensure full and effective implementation of the newly adopted procurement policy to strengthen public procurement practices. For the remainder of the 2005/06 fiscal year[4], the government will prioritize expenditures in order to maintain its core functions, and to effectively pursue the 150-day plan; the budget for 2005/06 will therefore be amended accordingly.

14. To improve the budgetary process, the government intends to enhance transparency and accountability. As a first step, the government will take action to limit the discretion

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[3] In principle, revenue from FDA and BMA should flow directly to the government. Revenues from NPA, RIA and LPRC should flow to the budget through dividends.

[4] July to June.

granted to the administration to change budget allocations between line ministries without legislative approval. Legislation to this effect will be introduced in tandem with the submission of the 2006/07 budget by end-June 2006. In addition, the budget (including any revisions) will be posted on the website of the Ministry of Finance with regularly updated information on progress with implementation. A timetable for the preparation of the 2006/07 budget will be established by end-March 2006.

15. The government intends to have a balanced budget for some time, reflecting domestic and external financing constraints. Nonetheless, progress with the reform effort is likely to attract grants, also in the form of budgetary support, once the budget process has been sufficiently strengthened. Together with higher revenue, these resources will be channeled toward basic infrastructure and social services in the context of the poverty reduction strategy that will be developed through a consultative process.

16. The government intends to review the strategy for the resolution of domestic debt, that was developed in 2005 with external assistance, and will carefully consider implementation of the options with due consideration to available resources and potential consequences for the domestic banking sector. As an immediate step, the government will establish the stock of domestic debt, and complete the process of verification. Subsequently a domestic debt resolution strategy will be finalized, consistent with a restructuring plan for CBL.

B. Monetary and Exchange Rate Policy

17. The principal objective of the CBL is to maintain price stability. Given that the role of monetary policy in a highly dollarized economy is very limited, the CBL will continue to use the exchange rate as a key indicator of demand for local currency. The current system of regular foreign exchange auctions will be used to control the pace of increase in domestic liquidity. The CBL will therefore resume the program of regular foreign exchange auctions, using the supply of U.S. dollars from the government for the payment of civil service salaries and wages in Liberian dollars. The use of the statutory reserve requirement system will also be explored in the event that additional actions are required to manage domestic liquidity.

18. The CBL will build up foreign reserves, consistent with the objective of maintaining stability in the exchange rate. It will target strengthening its net foreign exchange position to a minimum of US$13.2 million by end-September 2006 (see Table 1). In light of the scarcity of liquid foreign assets, the CBL will not use its resources to defend the local currency in the event of downward pressures on the currency.

19. Over the longer-term, the CBL expects to develop the capacity to manage liquidity in the banking sector through monetary instruments in order to provide an additional means of managing the exchange rate, particularly given the scarce availability of foreign reserves. In this regard, the CBL will gradually introduce a range of reforms, including strengthening the framework for liquidity monitoring, and preparing the framework for the eventual issuance of short-term securities.

20. Given the extent of dollarization, the CBL will continue to maintain the present dual currency arrangement, with both the Liberian and U.S. dollar as legal tender. However, the government believes that the pursuit of a credible monetary policy, complemented by sustainable fiscal policy, together with efforts to develop Liberia's financial system and improve the health of the banking sector, will in due course increase the demand for local currency, and consequently allow for a gradual de-dollarization of the economy. In the meantime, the expansion of domestic currency will be carefully managed to be consistent with the demand for Liberian dollars and maintaining a stable exchange rate.

21. In the banking system, the CBL will strengthen supervision in accordance with the Bank Restructuring and Resolution Policy which was adopted in January 2005. Consistent with IMF recommendations, the CBL will also implement the following additional measures to strengthen the regulatory environment and the capacity of banking supervision: (i) no new banks will be licensed for the time being; and (ii) the CBL will place resident supervisors with troubled banks.

22. The CBL will continue with current efforts to strengthen its financial position. Strategically, the CBL may not achieve a balanced budget in 2006, but will eliminate the cash deficit over the next few years to complement other efforts to rebuild Liberia's international reserves. To strengthen management capacity and governance at the CBL, the newly appointed Chief Administrator at the CBL, with binding co-signature authority for operational and financial matters, assumed his position on February 6, 2006, and is expected to make considerable contributions in these areas. In addition, the recently appointed Executive Governor is also expected to further strengthen management of the CBL. Moreover, the CBL will commission an external audit of its accounts for the 2005 financial year by an auditor of international repute.

C. Structural Reforms

23. The government recognizes that economic recovery requires not only a consistent macroeconomic framework, but also a clear and transparent legal and regulatory environment that can support a revival of both domestic and foreign direct investment. To this end, the government will approach the international community to provide further policy advice and technical assistance to support capacity building in the public sector, including civil service reform, and strengthening of the judicial system.

24. The government will stand firm against corruption. It will request support from international experts in the investigation of serious fraud, corruption and economic crimes. Additionally, the government also plans to develop by end-May 2006 a comprehensive anti-corruption strategy inclusive of a policy matrix for implementation.

25. The government will strengthen economic governance, as envisaged under the GEMAP. As a first step, it is conducting a stocktaking exercise for all the concessions given and contracts made under the NTGL and, with external assistance, will formulate a strategic plan to deal with these concessions. In addition, the government will improve controls over the granting of concessions and contracts, implementing a basic procurement system through the establishment of the Public Procurement and Concessions Commission, and joining the

Kimberley Process Certification Scheme and the Extractive Industries Transparency Initiative (EITI). The government will pursue trade reform and will seek to become a member of the WTO. Furthermore, in cooperation with the World Bank and other international partners, the government will develop a concrete plan of action to meet the conditions for lifting of UN sanctions on exports of timber and diamonds.

26. The government has initiated a comprehensive program for the first 150 days of its administration to rehabilitate public infrastructure (roads, electricity generation, provision of water, renovation of Monrovia port, schools, and health clinics); to improve education and health services through assignment of more teachers and health workers, and strengthening programs to combat malaria, HIV/AIDS, and other diseases; to promote employment, inter alia, through targeted public works programs; to continue preparatory work for a civil service reform program; to improve security; and to support revitalization of agriculture through targeted support to farmers.

IV. Technical and Financial Assistance

27. The government's efforts to rebuild the economy, facilitate economic growth, and reduce poverty will require a functioning and efficient public administration. The short-term objectives are to build program implementation and monitoring capacity, and put in place the necessary administrative capacity to lay the foundation for monitoring a Fund-supported program, as well as programs of assistance of other development partners. To this end, the objective of this program is to achieve significant progress with strengthening key government institutions; as envisaged under GEMAP, attention will initially be focused on the Ministry of Finance, other key agencies, and the CBL. The government has requested technical and financial support for this purpose from the IMF, World Bank, and other development partners.

28. The government currently lacks accurate and timely data required to formulate economic policy, and to monitor its implementation since much of the database was destroyed during the period of conflict. Significant support from international agencies will be required for an extended period to rebuild Liberia's database. In this context, support will be required for improving basic economic indicators, such as the national accounts, consumer price index and balance of payments, as well as basic data on social indicators, inter alia, through support for a national census and household survey.

V. Relations with the IMF and other International Creditors

29. The government recognizes the need to make swift progress toward normalizing relations with the international community with a view to the eventual resolution of Liberia's debt overhang. The government will therefore make every effort to establish a sufficient track record of sound economic management under the staff monitored program (SMP) and to continue with monthly payments of US$60,000 to the IMF, as well as US$25,000 to the World Bank and US$15,000 to the African Development Bank. The government expects sustained progress in these areas to lead to a de-escalation of the IMF's remedial measures imposed on Liberia, and to a subsequent IMF-supported program.

30. Given the urgency of meeting Liberia's social and reconstruction needs, a substantial reduction in the external debt burden will be an important element of the country's economic strategy. To this end, the government intends to contact its bilateral and commercial creditors, and inform them of the government's desire for a comprehensive resolution to the debt overhang problem. The government also intends to consult with the multilateral institutions (including the IMF, World Bank and African Development Bank) on modalities for eliminating arrears with those institutions, with a view to eventually seeking comprehensive debt relief through the HIPC and the Multilateral Debt Relief (MDR) Initiatives. The government recognizes that developing a strong track record under the SMP is an important first step in achieving this goal.

Table 1. Liberia: Quantitative Indicators (flow basis)

(In millions of US$)

	Oct.-Dec. 05 Act.	Jan. 06 Act.	Feb.-Mar.06 Prog.	Apr.-Jun.06 Prog.	Jul.-Sep.06 Prog.
Fiscal					
Floor on revenue collections	13.6	8.1	14.1	24.7	20.3
Floor on cash-based fiscal balance [1/]	-1.1	5.2	0.0	0.0	0.0
Ceiling on new noncash tax/duty payment	n.a.	n.a.	0.0	0.0	0.0
Ceiling on new domestic borrowing	0.0	0.0	0.0	0.0	0.0
Ceiling on new external borrowing	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables (excluding the arrears arising from the current debt outstanding)	n.a.	n.a.	0.0	0.0	0.0
CBL					
Ceiling on expenses	n.a.	1.2	0.9	2.2	0.9
Ceiling on payments arrears	n.a.	n.a.	0.0	0.0	0.0
Floor on CBL's cash-based budget balance	n.a.	-1.0	-0.3	-1.2	0.1
Floor on the changes in CBL's net foreign exchange position	2.7	-0.9	0.2	1.8	3.1
Other					
Floor on token payments to the Fund (in US$)	170,000	60,000	120,000	180,000	180,000

1/ The fiscal balance, on a cash basis, is defined as the difference between (a) total central government revenue (excluding grants); and (b) total current expenditure plus investment expenditure (excluding spending through budget support and foreign-financed investment).

Table 2. SMP for 2006—Structural Benchmarks

Measures	Target dates
Fiscal Management	
Strengthen the Large Taxpayer Unit (LTU) • Create a large taxpayer audit unit inside the LTU with reallocation of staff within MoF. • Introduce a monthly information exchange to the LTU from BIVAC.	End-March 2006
Increase the number of large tax payers from 60 to 110 through auditing hidden taxpayers and/or lowering threshold value.	End-June 2006
Develop a timetable to ensure approval of 2006/07 budget.	End-March 2006
Submit budget for legislative approval prior to commencement of fiscal year.	End-June 2006
Develop a strategy to deal with overdue tax obligations.	End-June 2006
Implement an interim commitment control system in accordance with FAD TA recommendations: • The Bureau of the Budget to only allocate to line ministries in line with monthly cash plans. • The line ministries to ensure that their commitments do not exceed allotments. • The MoF to make public announcement that only purchase orders with the Bureau of General Accounting's special seal would be valid.	Continuous from end-June 2006
Integrate the Bureau of the Budget and the Bureau of Maritime Affairs into the Ministry of Finance	End-June 2006
Establish the stock of domestic debt of the GOL, and complete process of verification.	End-June 2006
Finalize the domestic debt resolution strategy, consistent with a restructuring plan for the CBL.	End-September 2006
CBL operations	
Revise the terms of reference for the money management committee to reflect the new responsibility of monetary policy, and ensure the committee operates in accordance with its TOR.	Continuous from end-March 2006
Publicize the final Monetary Policy Framework paper on the CBL website.	End-March 2006
Formulate a financial restructuring plan for CBL in collaboration with GOL, supported by IMF TA experts.	End-September 2006
Hold regular weekly or bi-weekly foreign exchange auctions.	Continuous from end-March 2006
Conduct an external audit of the CBL by auditors of international repute.	End-September 2006

Table 2. SMP for 2006—Structural Benchmarks (concluded)

Measures	Target dates
Governance and other issues	
Finalize the program for prioritizing and reviewing all concessions, contracts, and licenses granted under NTGL, and identifying associated revenue flows, with assistance provided by supported by international partners.	End-April 2006
Complete review of concessions, contracts, and licenses granted under the NTGL, with assistance provided by supported by international partners.	End-September 2006
Implement recommendations of audit of travel expenses, including revision of policy on travel allowances.	Continuous from end-March 2006
Develop a national anti-corruption strategy for the GOL, inclusive of a policy matrix for implementation, with assistance provided by supported by international partners.	End-May 2006
Post on website of the MoF complete financial statements of revenue-generating agencies (National Ports Authority, Roberts International Airport, Liberian Petroleum Refining Corporation, Forestry Development Authority, and Bureau of Maritime Affairs), endorsed by financial controllers.	End-September 2006
Submit a status report, endorsed by the Economic Governance Steering Committee, on implementation of the Governance and Economic Management Assistance Program.	End-September 2006

Technical Memorandum of Understanding for the Staff-Monitored Program for 2006

Liberia, April 12, 2006

1. This memorandum describes the definitions of the quantitative and structural indicators for the staff monitored program (SMP) for 2006 (Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP) as agreed between the authorities of Liberia and the staff of the IMF. It also specifies the agreed periodicity and deadlines for transmission of data to the staff of the IMF for program monitoring purposes.

I. Quantitative Indicators and Adjustors

A. Quantitative indicators

2. The quantitative indicators (Table 1 of the MEFP) are the following:

a. floor on government revenue;
b. floor on the fiscal balance (on a cash basis);
c. ceiling on noncash tax/duty payment;
d. ceiling on new domestic borrowing;
e. ceiling on new domestic payments arrears of the government;
f. ceiling on new external debt contracted or guaranteed;
g. ceiling on the CBL's cash expenses;
h. ceiling on new payments arrears of the CBL;
i. floor on the CBL's cash balance (on a cash basis);
j. floor on the net changes of CBL's net foreign exchange position; and
k. token payments to the Fund

3. Quantitative indicators have been set for end-March, end-June, and end-September 2006.

B. Definitions and computation

4. **For the purposes of the SMP, the government is defined as the central government of Liberia.** This definition excludes public entities with autonomous legal personality whose own budget is not included in the central government budget.

5. **The government revenue** includes all tax and non-tax receipts transferred into the GOL general accounts at the CBL and excludes external loans and grants. It is measured on a cash basis.

6. **The fiscal balance,** on a cash basis, is defined as the difference between (a) total central government revenue (excluding grants) defined in paragraph 5 of this TMU; and (b) total current expenditure plus investment expenditure (excluding foreign-financed investment).

7. **The noncash tax/duty payment** is defined as settlement of duty/tax obligations by delivering goods or services without cash paid by taxpayers.

8. **The new domestic borrowing** is defined as new claims on the central government by the banking system (including the CBL) starting February 1, 2006. It comprises the stock of all outstanding claims on the central government (loans, advances, and any government debt instruments, such as long-term government securities) by the banking system, less all deposits held by the central government with the banking system.

9. **New domestic payments arrears of the government** are calculated as the difference between payments due on commitments engaged since February 1, 2006 and actual payments made on those commitments. Government payments due include all expenditure for which commitment vouchers have been officially approved by the Bureau of General Accounting of the Ministry of Finance, non-discretionary expenditure (such as wages and salaries, pensions, utilities, and other expenditures for which commitments are automatic and not at the discretion of the government, including domestic debt).

10. **The indicators for external debt** are cumulative ceilings on new external debt contracted or guaranteed by the government from February 1, 2006. For the purposes of the SMP, the indicator for external debt applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 but also to commitments contracted or guaranteed for which value has not been received. For purposes of these guidelines, the term "debt" is understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or

maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt. For the purposes of monitoring the SMP, arrangements to pay over time obligations arising form judicial awards to external creditors do not constitute nonconcessional external borrowing.

11. **The CBL's cash expenses** are defined as the sum of (i) recurrent expenditures and (ii) capital spending, on a cash basis. The ceiling on the expenses will be fully adjusted for the CBL's cost of the forthcoming external audit of the CBL by auditors of international repute.

12. **New payments arrears of the CBL** are calculated as the difference between payments due on commitments engaged since March 1, 2006 and actual payments made on those commitments. For the purpose of the Memorandum, the CBL commitments due include all expenditure for which goods and services have been delivered but not been paid.

13. **The CBL's cash balance** is defined as the difference between (a) total recurrent revenues of the CBL (the sum of interest income and non-interest income) on a cash basis; and (b) total current expenditure plus capital expenditure on a cash basis.

14. **The CBL's net foreign exchange position** is defined as the difference between (a) the CBL's gross foreign liquid assets, as currently defined in the Monetary Survey Data, and (b) the sum of its gross foreign liquid liabilities and liquid liabilities denominated in US dollar, as currently indicated in the table on monetary sector.

15. **The token payments to the IMF** is defined as a monthly payment of US$60,000. The IMF staff may request the authorities to deposit payments into an escrow account established at another institution overseas.

II. Program Monitoring

A. Program–Monitoring Committee

16. The Liberian authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the Central Bank of Liberia, and other relevant agencies. The IMF Resident Representative will have observer status on this committee. The committee shall be responsible for monitoring the performance of the program, recommending policy responses, informing the Fund regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of performance criteria and benchmarks. The committee shall provide the Fund with a progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

B. Data Reporting to the Fund

17. To allow monitoring of developments under the program, the Ministry of Finance will regularly report the following information to the staff of the IMF:

- The detailed reports on revenue and expenditure by budget line and a completed summary table on central government operations (monthly, three weeks after the end of the month);
- The outstanding appropriation, allotment, commitment, and disbursement of the fiscal year 2005/06 and 2006/07 by ministries and agencies (monthly, three weeks after the end of the month);
- The monthly cash plan (monthly, before the beginning of the month);
- Disbursements of budget support grants and loans, by donor (within two weeks after the end of the month);
- A table providing the end-of-period stock of domestic arrears accumulated during the program period, by budget category (wages, goods and services, etc.; within four weeks after the end of the month);
- The amount of new domestic debt contracted or guaranteed by the government (within two weeks after the end of the month);
- The amount of new external debt contracted or guaranteed by the government (within two weeks after the end of the month);
- The balance sheet of the central bank from the monetary survey (monthly, within three weeks after the end of the month);
- The monetary survey, combined with the balance sheet of the commercial banks, (monthly, within six weeks after the end of the month);
- The detailed reports on CBL cash revenues and expenditures in US dollar and Liberian dollar terms, and on aggregated basis (including both recurrent and capital spending) (monthly, within three weeks after the end of the month);
- The outstanding commitment and disbursement of the CBL expenses (within three weeks after the end of the month);
- The detailed report on foreign exchange auctions and the CBL's direct foreign exchange transactions with the government, including amount, date, and rate (monthly, within three weeks after the end of the month);

- Indicators to assess overall economic trends, such as the consumer price index, foreign exchange rates, trade data, production data (monthly, within six weeks after the end of the month);

- A table with a description of the status of implementation of the structural indicators in Table 2 of the MEFP (within two weeks after the end of the month).

18. **The above data will be provided to the local office of the IMF in Liberia (Mr. Tharkur) for further transfer to the African Department of the IMF in Washington D.C.**

Governance and Economic Management Assistance Program

In September 2005, Liberia's key international partners (US, EU, UN, and ECOWAS) jointly formulated the Governance and Economic Management Assistance Program (GEMAP). The new government has also endorsed the program. The GEMAP aims at strengthening governance and financial management, in light of the bitter experience of financial mismanagement under the previous governments. The key features of the GEMAP are:

- **Financial Management and Accountability:** measures to secure public revenue include: (i) the deployment of international experts with binding co-signature authority in selected institutions and enterprises; (ii) offering international management contracts for five state-owned enterprises (SOEs) through competitive bidding; and (iii) establishing escrow accounts for revenue generated by SOEs, and strictly enforcing the provisions of Executive Order No. 2, which mandates the centralization of the authority to collect revenue at the Ministry of Finance, and of government accounts at the Central Bank of Liberia.

- **Improving Budgeting and Expenditure Management:** public expenditure management will be strengthened through: (i) capacity building; (ii) revamping business processes; (iii) providing an Integrated Financial Management Information System (IFMIS); (iv) deploying international experts with binding co-signature authority; (v) ensuring effective commitment control; (vi) developing realistic cash and procurement plans; and (vii) establishing an empowered Technical Secretariat for the Cash Management Committee (CMCo).

- **Improving Procurement Practices and Granting of Concessions:** in accordance with Executive Order No. 3, transparency in procurement will be strengthened through: (i) implementation of the new procurement law; (ii) implementation of a basic procurement system requiring mandatory listing, open competitive bidding, and publication of tender results; (iii) adequate coverage in the print and other media of tender results; (iv) deployment of specialized expertise to strengthen the process for granting of concessions, contracts, and licenses; and (v) support for the Contract and Monopolies Commission (CMC) to strengthen its compliance role and empower it to review concessions, contracts, and licenses. In addition, Liberia will join the Kimberley Process Certification Scheme and the Extractive Industries Transparency Initiative (EITI).

- **Establishing Effective Processes to Control Corruption:** to strengthen the judicial system and combat corruption, the international community will provide: (i) policy advice, technical assistance and support for the renovation of facilities; and (ii) technical support from the sub-region to assist investigations of fraud, corruption, and economic crimes. In addition, establishment of an independent Anti-Corruption Commission should be considered.

- **Supporting Key Institutions:** international assistance will be provided to a number of key institutions such as the General Auditing Office (GAO), General Services Agency (GSA), Governance Reform Commission (GRC), and Contracts and Monopolies

Commission (CMC), including through international experts with co-signature authority; awarding of a contract for an external audit agent to support the work of the GAO; and provision of technical assistance to the Ministry of Finance and the GRC.

- **Capacity Building:** to support the efforts of international experts, emphasis will be placed on building domestic capacity. To this end, the work of the Institute of Public Administration will be revitalized to support ongoing efforts to revise the Civil Service Manual and preparation of a Code of Conduct for Civil Servants.

Assessing Debt Sustainability

Liberia's external debt is very large and clearly unsustainable. Preliminary estimates based on incomplete data indicate that Liberia's external debt amounted to about US$3.7 billion in nominal terms at end-2005 (see Table 5 of the main text).[1] Of this total, it is estimated that US$1.6 billion were owed to multilateral creditors (of which US$740 million to the Fund), US$1 billion to the bilateral creditors (of which US$830 million to Paris Club members), and about US$1.1 billion (including accrued interest and penalty interest) to commercial creditors and suppliers. Almost all of this debt has been in prolonged arrears.

Calculations using the low-income country external debt template indicate that, at end-2005, the NPV of Liberia's external debt relative to GDP and exports of goods and services was 790 percent and 3,040 percent, respectively (Tables A1 and A2, Figure A1). These ratios are many times higher than the relevant debt burden thresholds of the LIC DSA framework.[2]

Under a baseline scenario that represents an extension of the staff's medium-term baseline scenario, the debt burden indicators decline over time owing to the assumed strong growth of the economy and exports but never come close to the debt burden thresholds.[3] Thus, the NPV of debt-to-GDP ratio declines to 460 percent by 2010 and 240 percent by 2024, while the NPV of debt-to-exports ratio declines to 1,540 percent by 2010 and 780 percent by 2024.

Alternative scenarios and stress tests underscore the unsustainability of Liberia's external debt.[4] Under a historical scenario, which sets important variables at their average values for 1999–2004, the debt burden indicators decline at a slower pace than in the

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[1] Most of Liberia's official records on external debt were lost during the years of conflict and the process of obtaining statements from creditors has not been completed. Data on debt to multilateral creditors are relatively complete but less so for bilateral and particularly commercial creditors. The latter reflect estimates by the authorities and staff.

[2] The thresholds for a country ranked as a poor policy performer according to the World Bank's CPIA index, as Liberia is, are 30 percent and 100 percent, respectively

[3] Under this baseline scenario, real GDP is assumed to grow at about 8 percent per year during 2006-10 and 5 percent per year thereafter. Exports are assumed to expand rapidly during 2006-10 as timber exports recover following the lifting of UN sanctions. Moreover, Liberia is assumed to continue to accumulate arrears and not have access to any new borrowing for the entire projection period.

[4] At this stage, it would be premature to present a scenario incorporating possible debt relief because of uncertainty regarding the timing of arrears clearance. This will depend on the mobilization of adequate financing assurances, and Liberia's success in building a track record of macroeconomic management and structural reforms. However, if and when debt relief becomes available, Liberia's debt sustainability outlook would, of course, improve dramatically.

baseline. Thus, the NPV of debt-to-GDP and to-export ratios are at 470 percent and 1,560 percent, respectively, in 2024, about twice their levels under the baseline. Under the most extreme stress test, represented by a one standard deviation shock to exports in 2006–07, the debt burden indicators first rise sharply and then converge slowly to the levels under the historical scenario, despite the larger decline in the stock and flow indicators relative to the baseline projections.

The application of the LIC DSA framework to the case of Liberia clearly illustrates that country's external debt is unsustainable situation. To address its external debt problem, Liberia will need to demonstrate a strong commitment to sound macroeconomic and structural policies but will also require substantial support, including exceptionally deep debt relief, from the international community.

Table A1. Liberia: External Debt Sustainability Framework, Baseline Scenario, 2002-2024 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Estimate	Projections								
	2002	2003	2004			2005	2006	2007	2008	2009	2010	2005-10 Average	2014	2024	2011-24 Average
External debt (nominal) 1/	**545.5**	**772.8**	**751.9**			**667.3**	**605.4**	**558.2**	**512.1**	**469.4**	**426.2**		**353.4**	**236.0**	
o/w public and publicly guaranteed (PPG)	545.5	772.8	751.9			667.3	605.4	558.2	512.1	469.4	426.2		353.4	236.0	
Change in external debt	-0.3	227.2	-20.9			-84.6	-61.9	-47.2	-46.1	-42.7	-43.2		-16.1	-8.8	
Identified net debt-creating flows	-13.8	174.9	-80.6			-35.1	-30.9	-30.0	-29.2	-27.2	-29.6		-6.9	-1.1	
Non-interest current account deficit	**-6.6**	**7.2**	**2.2**	**6.2**	**10.1**	**-13.4**	**-5.5**	**2.2**	**1.2**	**0.3**	**0.8**	-2.4	**5.6**	**6.4**	6.0
Deficit in balance of goods and services	-3.8	7.1	33.1			29.4	31.4	30.4	27.8	24.2	19.2		19.2	19.2	
Exports	37.3	31.9	27.4			25.9	22.9	22.3	23.9	26.3	30.1		30.1	30.1	
Imports	33.5	39.1	60.5			55.4	54.3	52.7	51.7	50.5	49.4		49.4	49.4	
Net current transfers (negative = inflow)	-11.3	-10.7	-48.8	-18.4	15.4	-56.7	-51.7	-45.7	-41.4	-37.6	-31.2	-44.1	-27.3	-19.6	-24.5
Other current account flows (negative = net inflow)	8.5	10.7	17.9			14.0	14.8	17.6	14.8	13.7	12.8		13.6	6.8	
Net FDI (negative = inflow)	**-1.3**	**1.4**	**1.8**	**-1.9**	**3.2**	**-1.1**	**3.7**	**-4.4**	**-3.6**	**-2.5**	**-2.6**	-1.7	**-2.6**	**-2.6**	-2.6
Endogenous debt dynamics 2/	**-5.9**	**166.4**	**-84.6**			**-20.6**	**-29.1**	**-27.7**	**-26.8**	**-25.1**	**-27.8**		**-9.9**	**-5.0**	
Contribution from nominal interest rate	10.0	11.0	11.0			15.2	16.3	15.3	14.2	13.1	12.1		7.3	6.5	
Contribution from real GDP growth	-19.5	219.4	-17.3			-35.9	-45.3	-43.0	-41.0	-38.2	-39.9		-17.3	-11.4	
Contribution from price and exchange rate changes	3.6	-64.0	-78.3			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**13.5**	**52.3**	**59.7**			**-49.5**	**-31.0**	**-17.2**	**-16.9**	**-15.5**	**-13.6**		**-9.1**	**-7.7**	
o/w exceptional financing	-15.0	-16.7	-16.9			-18.3	-18.9	-17.7	-16.3	-14.6	-12.7		-9.7	-4.9	
NPV of external debt 4/	...	932.2	900.0			788.6	702.1	632.6	568.8	520.1	463.5		367.9	236.5	
In percent of exports	...	2919.4	3282.3			3040.6	3068.5	2832.9	2381.6	1977.5	1537.4		1220.3	784.3	
NPV of PPG external debt	**...**	**932.2**	**900.0**			**788.6**	**702.1**	**632.6**	**568.8**	**520.1**	**463.5**		**367.9**	**236.5**	
In percent of exports	...	2919.4	3282.3			3040.6	3068.5	2832.9	2381.6	1977.5	1537.4		1220.3	784.3	
Debt service-to-exports ratio (in percent)	36.0	48.6	54.8			71.9	84.3	80.6	70.1	56.3	43.5		26.9	23.8	
PPG debt service-to-exports ratio (in percent)	36.0	48.6	54.8			71.9	84.3	80.6	70.1	56.3	43.5		26.9	23.8	
Total gross financing need (billions of U.S. dollars)	0.0	0.1	0.1			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.3	
Non-interest current account deficit that stabilizes debt ratio	-6.3	-220.1	23.1			71.2	56.4	49.4	47.3	43.1	44.0		21.6	15.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.7	-31.3	2.6	0.7	20.4	5.3	7.7	8.0	8.3	8.4	9.6	7.9	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	-0.7	13.3	11.3	3.8	8.2	4.9	5.7	3.8	4.0	3.9	3.6	4.3	1.9	1.9	1.9
Effective interest rate (percent) 5/	1.9	1.6	1.6	2.5	1.1	2.2	2.8	2.8	2.9	2.9	2.9	2.8	2.1	2.8	2.3
Growth of exports of G&S (US dollar terms, in percent)	29.3	-33.3	-2.0	13.4	39.5	4.4	0.4	9.4	20.5	24.0	30.2	14.8	7.0	7.0	7.0
Growth of imports of G&S (US dollar terms, in percent)	-0.5	-9.2	76.6	10.7	37.5	1.1	11.6	8.9	10.5	10.0	10.9	8.8	7.0	7.0	7.0
Grant element of new public sector borrowing (in percent)	...	...	10.9	...	...	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9
Memorandym item:															
Nominal GDP (billions of US dollars)	0.6	0.4	0.5			0.5	0.6	0.7	0.8	0.9	1.0		1.3	2.6	

Source: Staff simulations.

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

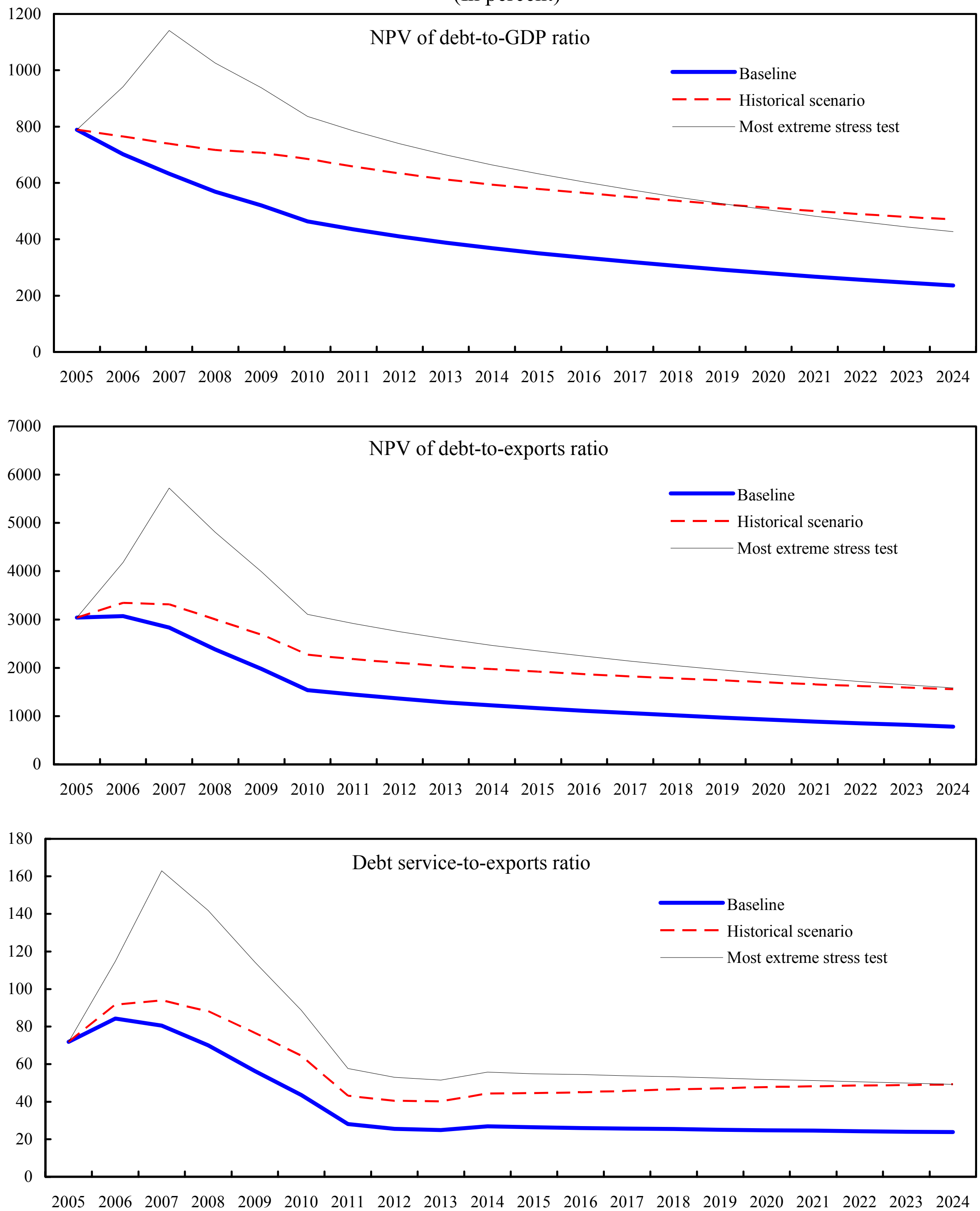
Table A2. Liberia: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2005-24
(In percent)

	Estimate	Projections						
	2005	2006	2007	2008	2009	2010	**2014**	2024
NPV of debt-to-GDP ratio								
Baseline	789	702	633	569	520	464	**368**	236
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-24 1/	789	767	743	723	714	694	**607**	492
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	789	942	1141	1026	938	836	**664**	427
B2. Export value growth at historical average minus one standard deviation in 2006-07 2/	789	704	635	571	522	465	**369**	237
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	789	776	759	682	624	556	**441**	284
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 3/	789	720	668	601	550	491	**392**	249
B5. Combination of B1-B4 using one-half standard deviation shocks	789	908	1040	936	856	764	**610**	388
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 4/	789	980	883	794	726	647	**514**	330
NPV of debt-to-exports ratio								
Baseline	3041	3069	2833	2382	1978	1537	**1220**	784
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-24 1/	3041	3352	3329	3025	2715	2301	**2013**	1632
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	3041	3069	2833	2382	1978	1537	**1220**	784
B2. Export value growth at historical average minus one standard deviation in 2006-07 2/	3041	4185	5720	4809	3993	3105	**2466**	1583
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	3041	3069	2833	2382	1978	1537	**1220**	784
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 3/	3041	3147	2991	2518	2091	1628	**1301**	826
B5. Combination of B1-B4 using one-half standard deviation shocks	3041	3372	3721	3132	2602	2025	**1617**	1028
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 4/	3041	3069	2833	2382	1978	1537	**1220**	784
Debt service ratio								
Baseline	72	84	81	70	56	44	**27**	24
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-24 1/	72	92	95	89	77	65	**45**	52
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	72	84	81	70	57	44	**28**	24
B2. Export value growth at historical average minus one standard deviation in 2006-07 2/	72	115	163	142	114	89	**56**	49
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	72	84	81	70	57	44	**28**	24
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 3/	72	84	82	73	59	46	**29**	27
B5. Combination of B1-B4 using one-half standard deviation shocks	72	91	103	91	73	57	**36**	33
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 4/	72	84	81	70	57	44	**28**	24
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 5/	61	61	61	61	61	61	**61**	61

Source: Staff projections and simulations.

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

Figure A1. Liberia: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2004-2024
(In percent)



Source: Staff projections and simulations.

Liberia: Relations with the Fund
(As of February 28, 2006)

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

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	71.3	100.0
Fund holdings of currency	271.9	381.4
Reserve position in Fund	0.0	0.0

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	21.0	100.0
Holdings	0.0	0.0

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
Stand-By Arrangements	166.0	232.8
Contingency and Compensatory	34.7	48.7
Trust Fund	22.9	32.1

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	12/07/1984	12/06/1985	42.8	8.5
Stand-By	09/14/1983	09/13/1984	55.0	55.0
Stand-By	09/29/1982	09/13/1983	55.0	35.0

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

	Overdue	Forthcoming				
	2/28/2006	2006	2007	2008	2009	2010
Principal	223.55					
Charges/interest	295.63	8.29	11.06	11.07	11.05	11.06
Total	519.18	8.29	11.06	11.07	11.05	11.06

[1] The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time. The estimates of amounts of charges and their due dates are estimates and subject to change.

VII. Exchange rate arrangement

The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. The current exchange rate arrangement is an independent float. The exchange rate of the Liberian dollar is market determined, and all foreign exchange dealers, including banks, are permitted to buy and sell currencies, including the U.S. dollar. Liberia's exchange rate at end-February 2006 was L$56.8=US$1.

VIII. Article IV consultation

The 2005 Article IV consultation discussions were held in Accra during February 2005. The staff report (Country Report No. 05/166, 5/20/05) was discussed by the Executive Board on April 20, 2005.

IX. Technical assistance

Subject	Department	Date
Mission: currency arrangement reform	MAE	1995
Mission: currency arrangement and financial system reform	MAE	1998
Advisor: banking commission	MAE short term	1998
Advisor: general operations	MAE long term	1998–2000
Advisor: audit and accounting	MAE long term	1998–2000
Advisor: research	MAE long term	1998–2000
Advisor: banking supervision	MAE long term	1999–2001
Mission: assessment of technical assistance needs	MFD	2003
Mission: monetary operations, foreign exchange, auctions, banking supervision, payments system	MFD	May 2004
Mission: monetary operations, foreign exchange auctions, banking supervision, payments system	MFD	Aug. 2004
Mission: monetary operations, foreign exchange auctions, payments system	MFD	Feb. 2005
Mission: bank restructuring	MFD	May. 2005
Mission: monetary operations, foreign exchange auctions, banking supervision, payments system	MFD	Aug. 2005
Mission: negotiation on chief administrator post	MFD	Dec. 2005
Chief Administrator for the CBL	MFD	Feb. 2006

Mission: budget preparation and expenditure execution	FAD	1997
Mission: strategy for fiscal reform	FAD	1998
Advisor: budget preparation and classification	FAD short and long term	1998–2000
Advisor: budget execution	FAD short and long term	1998–2000
Mission: tax reform	FAD	1999
Mission: preparation of tax code	FAD	1999
Mission: tax administration	FAD	1999
Advisor: tax administration	FAD short term	2000
Mission: assessment of technical assistance needs	FAD	Dec. 2003
Mission : public expenditure management	FAD	May 2004
Mission : public expenditure management	FAD	July 2004
Mission : tax administration	FAD	Sept. 2004
Mission : public expenditure management	FAD	Dec. 2004
Mission : public expenditure management	FAD	Feb. 2005
Mission : forestry tax policy	FAD	Feb. 2005
Mission : public expenditure management	FAD	May. 2005
Mission : public expenditure management	FAD	Dec. 2005
Mission : public expenditure management	FAD	Feb. 2006
Mission: preassessment for multisector statistics	STA	1997
Mission: multisector statistics	STA	1998
Mission: money and banking statistics	STA	1999
Mission: money and banking statistics	STA	1999
Mission: money and banking statistics	STA	2000
Advisor: balance of payments compilation	STA short term	2000
Mission: balance of payments statistics	STA	2000
Mission: assessment for technical assistance needs	STA	Dec. 2003
Mission: balance of payments statistics	STA	May 2004
Mission: balance of payments statistics	STA	July 2004
Mission: government finance statistics	STA	July 2004
Mission: national accounts	STA	July 2004
Mission: monetary and financial statistics	STA	Aug. 2004
Mission: government finance statistics	STA	Jan. 2006

X. Resident Representative

A resident representative has been posted in Monrovia since April 3, 2006.

Liberia: Relations with the World Bank Group

(As of March 12, 2005)

The World Bank suspended disbursements to Liberia in December 1986, as a result of mounting arrears and Liberia's loans were placed in non-accrual status in June 1987. To that date, disbursements had totaled US$141.3 million from 22 IBRD loans and US$91.5 million from 17 IDA credits; only US$ 43.6 million owing on these disbursements has been repaid. By 12 March 2006, Liberia's arrears to the World Bank had mounted to US$435.3 million, reflecting further interest charges. Liberia has an outstanding obligation of US$2.2 million to the World Bank, since 24 August 2005, to fulfill the Maintenance of Value (MOV) clause in the Bank's Articles of Agreement.

Following the Comprehensive Peace Agreement in August 2003 and the installation of the National Transitional Government of Liberia (NTGL) in October 2003, the Bank co-hosted with the UN and US the International Reconstruction Conference for Liberia in February 2004. In March 2004, the Executive Directors of the Bank discussed the Liberia Country Re-engagement Note. In April 2004 a US$4.0 million grant from the Bank's newly created LICUS Implementation Trust Fund was approved to fund four activities, in the areas of community empowerment, including a rapid social assessment; public procurement and financial management; forestry sector management; and coordination and implementation of the Results-Focused Transition Framework (RFTF). A US$25.0 million grant from Bank IBRD surplus, was endorsed by the Executive Directors of the Bank in August 2004 and approved by the Bank's Board of Governors in October 2004. This grant, the TFLIB, extends funding of the above activities, funds additional activities in the area of infrastructure, and will provide support for the internationally-supported Governance and Economic Management Assistance Program (GEMAP) agreed with the NTGL in September 2005. The first sub-grant from this source of funding, the Technical Assistance Component for Infrastructure Rehabilitation (US$5.0 million), was approved in December 2004, and the second sub-grant, Community Empowerment (US$6.0 million), in February 2005. Other sub-grants are being prepared.

Since July 2004 the Bank has a Senior Country Officer in Monrovia to coordinate the Bank's activities in Liberia.

The working environment in Liberia is characterized by close coordination and consultation among the Government, the Bank, the IMF, the UN group, bilateral donors, local and international NGOs, and civil society. This approach was fostered during the transition through the high-level RFTF Implementation and Monitoring Committee, and since then through the Liberia Reconstruction and Development Committee; and through the Economic Governance Steering Committee of the GEMAP and its Technical Team. In December 2005 the Bank became a member of the International Consultative Group on Liberia.

World Bank Group
Statement of Loans/Credits/Grants for Liberia
Summary in U.S. Dollars at March 12, 2006

	IBRD	IDA	Total
Original Principal	155,950,000	114,500,000	270,450,000
Cancellations	14,693,265	22,765,012	37,458,277
Disbursed	141,256,735	91,541,498	232,798,233
Undisbursed	0	0	0
Repaid	42,874,104	723,744	43,597,848
Due	97,977,632	105,903,740	203,881,372
Exchange adjustment	47,553,454	0	47,553,454
Borrowers' obligation	145,531,086	105,803,740	251,434,826
Sold third party	405,000	0	405,000
Repaid third party	405,000	0	405,000
Due third party	0	0	0

Source: World Bank, Integrated Controller's System.
Contact person at World Bank: Michael Diliberti 202-473-8766.

Liberia: Statistical Issues

1. There are substantial weaknesses in Liberia's economic statistics that hamper effective surveillance, largely because the civil war caused widespread destruction of databases and the loss of administrative and institutional capacity for the systematic compilation of statistics. Fund statistics missions visited Monrovia in 2003, 2004 and January 2006 in order to assist the authorities in rebuilding some capacity to compile statistics in the areas of national accounts, monetary and fiscal statistics and balance of payments. The government passed new legislation in July 2004 creating the Liberia Institute of Statistics and Geo-Information Services as a semi-autonomous agency. This agency, expected to be operational in FY 2005/06, will have the lead role for national coordination and reestablishment of economic and social statistics. As one of fifteen countries participating in the Fund's General Data Dissemination System (GDDS) Project for Anglophone African Countries, Liberia has undertaken to use the GDDS as a framework for the development of its national statistical system. Metadata and detailed plans for improving the data over the short and medium term were posted on the Fund's Dissemination Standards Bulletin Board (DSBB) on October 24, 2005. The Anglophone Africa project (funded by the U.K. Department for International Development (DFID)) aims to assist participating countries to implement the plans for improvement identified in the metadata, to meet GDDS recommended statistical practices.

2. The Central Bank of Liberia (CBL) is now regularly reporting monetary and financial and exchange rate statistics for publication in *International Financial Statistics (IFS)*, but their quality and timeliness need to be improved.

3. The CBL publishes data on money and banking, prices and output, fiscal operations and debt, interest and exchange rates, and foreign trade in its statistical bulletin, *Liberia Financial Statistics*, on a bimonthly basis with a lag of about six months. It also publishes the quarterly *Financial and Economic Bulletin*, covering the previous four quarters, with a lag of about six months. Real sector

4. Annual estimates of production by sector are prepared by the National Accounts Unit of the Ministry of Planning and Economic Affairs (MPEA). The Fund staff has estimated total GDP by sectoral origin for the period 1997–2004 with the assistance of the MPEA. There is currently no estimate for GDP by expenditure. A household survey is required as a base for more reliable data.

Prices

5. The Price Unit of the MPEA began producing a consumer price index in late 1998, with May 1998 as the starting date and reference period. However, the weights are based on an expenditure survey of 100 Monrovia households conducted in 1963–64. Targeted sampling frequencies vary from bimonthly for food items to biannual for rents and personal care and services, with actual collections often delayed. A survey conducted in June 2004 updated the two subgroups of rent and personal care and health services in the Monrovia

consumer price index. Monthly data have been reported to the Fund at the same time as publication, which generally involves a lag of about six months.

Government finance statistics

6. The authorities provide information on fiscal accounts to the staff on a regular basis but they have not reported data for publication in the *Government Financial Statistics Yearbook* (*GFSY*) since 1988, nor have they provided data for the *IFS* for several years. The Ministry of Finance provides monthly disaggregated data on government revenue, and current and capital expenditure. There is, however, considerable scope for improvement in the quality and consistency of government finance statistics. Data on domestic arrears and on financing items are unreliable.

Monetary statistics

7. The August 2004 monetary and financial statistics (MFS) mission reviewed in detail the methodology for the collection of monetary data, established procedures for their regular compilation, and suggested changes in CBL's accounting records and commercial banks' reports to improve overall data quality. In cooperation with the authorities, and based on available information, the mission compiled monetary data for the period June 2002–June 2004. The CBL has made progress in compiling monetary aggregates according to international standards, and reporting of data by commercial banks has improved.

8. While progress has been made in moving toward international standards, substantial weaknesses persist. Important steps to strengthen the CBL's accounting system remain to be taken, including proper accounting for foreign reserves and the appropriate segregation of required reserves by currency denomination and classification of other assets and liabilities. In addition, while the reporting of preliminary statistics by commercial banks has improved, the response by banks to requests for explanations and follow-up to noted inconsistencies continues to be weak.

9. A MFS mission in 2006 is expected to address these issues, and also to introduce standardized forms for reporting monetary data and to develop an integrated monetary database.

10. The monetary and financial statistics reported monthly to IFS are usually submitted by e-mail or fax with a two-month lag; the latest return includes data up to January 2006.

Balance of payments and external debt

11. Official balance of payments statistics have not been reported comprehensively since the 1988 Article IV consultation; however, the Fund staff has prepared provisional balance of payments statistics in cooperation with the CBL, the Ministry of Commerce (MoC), MPEA, and the Ministry of Finance (MoF). The CBL is responsible for compiling the balance of payments in coordination with other agencies. Some progress has been made in compiling certain current and financial account components—mainly on trade and related services, government expenditures, remittances, and on nonresident deposits in the financial account—

but lack of primary source data and errors in distinguishing between components in services, income and transfers underscore the need for technical assistance for capacity building. A stronger effort must be made to resolve and reconcile the significant discrepancies that exist in the trade data reported by the various agencies. The CBL has completed a census of foreign direct investment enterprises in preparation for an investment survey following the recommendations made by the STA mission in July 2004.

12. Significant gaps exist in the records of external public debt, particularly that related to bilateral and commercial creditors. A task force comprising staff seconded from the CBL, MoF, MPEA, General Auditing Office (GAO) and the Bureau of the Budget (BOB) is currently making progress in obtaining loan agreements and financial statements from external creditors to update the external debt database maintained by the MoF. As part of strengthening capacity for balance of payments and external debt statistics compilation, STA trained three Liberian officials in 2005—one attended balance of payments course held in Washington in May/June 2005, and two separately attended external debt statistics courses held in Washington (July 2005) and Tunis, Tunisia (November 2005). STA is planning a follow-up balance of payments technical assistance mission to Liberia in FY 2007.

Liberia: Table of Common Indicators Required for Surveillance
AS OF MARCH 13, 2006

	Date of latest observation	Date received	Frequency of Data[4]	Frequency of Reporting[4]	Frequency of publication[4]
Exchange Rates	Jan. 2006	Mar. 2006	D	M	B
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jan. 2006	Mar. 2006	M	M	B
Reserve/Base Money	Jan. 2006	Mar. 2006	M	M	B
Broad Money	Jan. 2006	Mar. 2006	M	M	B
Central Bank Balance Sheet	Jan. 2006	Mar. 2006	M	M	B
Consolidated Balance Sheet of the Banking System	Jan. 2006	Mar. 2006	M	M	B
Interest Rates	Jan. 2006	Mar. 2006	M	M	B
Consumer Price Index	Dec. 2005	Mar. 2005	M	M	B
Revenue, Expenditure, Balance and Composition of Financing[2] – General Government[3]	...	...	...	...	...
Revenue, Expenditure, Balance and Composition of Financing[2]– Central Government	Jan. 2006	Mar. 2006	M	M	B
Stocks of Central Government and Central Government-Guaranteed Debt	Oct. 2004	Dec. 2005	Q	B	B
External Current Account Balance	...	...	...	...	...
Exports and Imports of Goods and Services	Jun. 2005	Oct. 2005	M	Q	B
GDP/GNP	...	...	...	...	...
Gross External Debt	Dec. 2005	Feb. 2006	Q	B	B

[1] Includes reserve assets pledged or otherwise encumbered.
[2] Foreign, domestic bank, and domestic nonbank financing.
[3] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.
[4] Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA)

Liberia: Millennium Development Goals [1/]

	1990	1995	2001	2002	2003	2004
General Indicators						
Population (millions)	2.4	2.7	3.2	3.3	3.4	3.4
Gross national income ($ million)	928	279	438	476	378	384
GNI per capita ($)	400	100	140	140	100	110
Adult literacy rate (percent of people of ages 15 and over)	39.2	45.3	54.8	55.9	55.9	...
Total fertility rate (births for women)	6.8	6.5	6.0	5.8	5.8	5.8
Life expectancy at birth (years)	45.1	44.1	47.2	47.1	47.1	47.1
Aid (% of GNI)	7.3	28.8	9.2	11.0	28.0	...
Goal 1. Eradicate extreme poverty and hunger						
2015 target = halve 1990 $1 a day poverty and malnutrition rates:						
1. Prevalence of child malnutrition (percent of children under 5)	...	...	26.5	...	...	...
2. Population below minimum level of dietary energy consumption (in percent)	33.0	38.0	42.0	...	46.0	...
Goal 2. Achieve universal primary education						
2015 target: = net enrollment to 100						
3. Net primary enrollment ratio (percent of relevant age group)	...	...	69.9	...	...	...
4. Percentage of cohort reaching grade 5 (in percent)	...	...	...	...	...	...
5. Youth literacy rate ((in percent of ages 15-24)	57.2	64.2	69.8	70.8	70.8	...
Goal 3. Promote gender equality						
2005 targets = education ratio to 100						
6. Ratio of girls to boys in primary and secondary education (in percent)	...	...	...	...	...	...
7. Ratio of young literate females to males (percent of ages 15-24)	51.2	56.9	63.1	64.2	64.2	...
8. Share of women employed in the nonagricultural sector (in percent)	28.3	...	...	...	...	...
9. Proportion of seats held by women in national parliament (in percent)	...	6.0	...	...	8.0	8.0
Goal 4. Reduce child mortality						
2015 target = Reduce 1990 under 5 mortality by two-thirds						
10. Under five mortality rate (per 1000)	235	235	235	235	235	235
11. Infant mortality rate (per 1000 live births)	157	157	157	157	157	157
12. Immunization, measles (percent of children under 12 months)	...	...	78.0	57.0	53.0	53.0
Goal 5. Improve maternal health						
2015 target: Reduce 1990 maternal mortality by two-thirds						
13. Maternal mortality ratio (modeled estimate per 100,000 live births)	...	...	760.0	...	...	...
14. 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.						
15. Prevalence of HIV, female (percent of ages 15-24)	...	...	...	...	...	...
16. Contraceptive prevalence rate (percent of women of ages 15-49)	...	...	...	...	...	...
17. Number of children orphaned by HIV/AIDS	...	...	...	...	5.9	5.9
18. Incidence of tuberculosis (per 100.000 people)	...	...	31,000	...	36,000	36,000
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.						
20. Forest area (percent of total land area)	44.0	...	36.1	...	...	...
21. Nationally protected areas (percent of total land area)	...	1.3	1.3	2.6	1.7	1.7
22. GDP per unit of energy use (PPP in US$ per Kg. oil equivalent)	...	...	...	...	...	...
23. CO2 emissions (metric tons per capita)	0.2	0.1	0.1	...	...	...
24. Access to an improved water source (percent of population)	...	...	...	...	62.0	...
25. Access to improved sanitation (percent of population)	...	...	...	...	26.0	...
26. Access to secure tenure (% of population)	...	...	...	...	...	...
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.						
27. Youth unemployment rate (percent of total labor force of ages 15-24)	...	...	...	...	...	...
28. Fixed line and mobile telephones (per 1,000 people)	3.6	1.6	2.8	...	...	...
29. Personal computers (per 1,000 people)	...	...	...	...	...	...

Source: World Development Indicators database, April 2005

1/ Includes only indicators for which data is available for any given year.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

International Monetary Fund
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Public Information Notice (PIN) No. 06/47
FOR IMMEDIATE RELEASE
May 2, 2006

IMF Executive Board Concludes 2006 Article IV Consultation with Liberia

On April 26, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with The Republic of Liberia.[1]

Background

The Liberian economy continued to recover in 2005, largely driven by donor activities. Real GDP is estimated to have grown by 5.3 percent in 2005, following a modest growth of 2.6 percent in 2004. This reflected the gradual improvement of security in rural areas, and restoration of activity in those sectors benefiting from donor assistance (mainly the service sector). Exports remain depressed, largely owing to continued UN sanctions on timber and diamond exports, while import levels remain high due mainly to large donor assistance. International reserves remained at a very low level, reflecting the continued financial weakness of the Central Bank of Liberia (CBL). Price and exchange rate developments reflect the return of relative stability to Liberia. Recently, however, there have been signs of a rise in inflation, in part reflecting higher donor expenditure. The Liberian dollar has been trading in a range of 55–60 Liberian dollars per U.S. dollar for the last 12 months.

Immediately following the inauguration of President Ellen Johnson-Sirleaf, the new government implemented several key steps to begin addressing long-standing problems in financial management and economic governance. These included: (i) the strict enforcement of pre-shipment inspections for imports and exports; (ii) more prudent budget allotments for line ministries; (iii) the reestablishment of the Cash Management Committee (CMCo) to contain expenditures within available cash revenues; and (iv) the initiation of a review of all

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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.

concessions and contracts signed by the National Transitional Government of Liberia (NTGL). The CBL, while still running a cash deficit, is also taking steps to strengthen its budgetary management.

For 2006, the economy is expected to continue to recover, based on strong donor inflows and a revival of rural activities, following the reestablishment of security and return of refugees to their communities. Real GDP is projected to grow by about 8 percent, led by agriculture and services. Notwithstanding the large donor presence, inflation is expected to remain modest, being contained to single digits. With a gradual decline in rubber exports and further increase in donor-funded imports, the trade deficit is projected to widen further.

Executive Board Assessment

Executive Directors commended the new Liberian authorities' resolve to work closely with their international partners in addressing the daunting challenges of rebuilding Liberia's economy and reducing pervasive poverty. As a first key step, Directors welcomed the agreement that had been reached on an ambitious macroeconomic program for the period February-September 2006 to be monitored by the Fund staff. They stressed that strengthening public financial management, improving economic governance, and rebuilding essential capacity and infrastructure are essential to place Liberia on a path toward sustained economic recovery and poverty reduction.

Directors were encouraged by the new government's endorsement of the Governance and Economic Management Program (GEMAP), which aims to strengthen economic governance and financial management, and help to rebuild Liberia's key economic institutions. They welcomed the authorities' early actions to reverse the weakening of public financial management that had occurred under previous governments, including through the enforcement of pre-shipment inspections, more prudent budget allotments for line ministries, and the re-activation of the CMCo to contain expenditures within available cash revenues.

Directors agreed that further decisive steps to strengthen public expenditure management would be key to ensuring that scarce resources are channeled to their most effective uses. They urged the authorities to establish an effective and transparent budgeting process, including planning, execution, and internal controls. In the short run, Directors stressed the importance of ensuring that allotments to line Ministries are consistent with available resources, and of fully implementing the interim commitment control system to prevent the accumulation of new payments arrears.

Directors urged the authorities to persevere with their efforts to raise the level of public revenues. They encouraged them to continue rigorous enforcement of pre-shipment inspections, to strengthen the Large Taxpayer Unit, and to review and rationalize the extensive list of duty exemptions.

Directors noted that the weak financial position of the CBL continues to affect the rebuilding of scarce foreign exchange reserves and the capacity to implement effective monetary and exchange rate policies. While they welcomed efforts to minimize the CBL's cash deficit in 2006, Directors urged the new management to take appropriate measures to eliminate this deficit as soon as possible. They called for a strengthening of the regulatory functions of the central bank, and emphasized that it will also be essential to continue with efforts to strengthen the domestic banking sector through developing and implementing restructuring plans for undercapitalized banks.

Directors generally agreed that the current framework of pursuing price stability through maintaining a broadly stable exchange rate remains appropriate in the current dollarized environment. Directors cautioned, however, that trends in the demand for local currency should be carefully assessed. They also encouraged the authorities to continue with efforts to strengthen the domestic financial sector in order to eventually allow for a more active monetary policy.

Directors welcomed the new government's determination to implement a policy of zero tolerance of corruption. In this regard, they encouraged the authorities to develop a national anti-corruption strategy, and to commence its implementation as soon as practicable. Directors also urged the government to complete the review of concessions, contracts and licenses granted under the previous government and make rapid progress in meeting the requirements for lifting UN sanctions. In this connection, the authorities were encouraged to increase transparency in the forestry sector in line with the guidelines of the Extractive Industries Transparency Initiative (EITI).

Directors noted the challenges involved in addressing Liberia's high internal debt and unsustainable external debt. They urged the authorities to complete the process of verifying outstanding obligations, which will require the support of donors and creditors, and to develop a strategy to address domestic payments arrears. Directors concurred that satisfactory implementation of the staff monitored program (SMP), along with continued repayments to the Fund, would be important for providing a basis for considering the timely de-escalation of the Fund's remedial measures. Prompt and sufficient indications of support from donors and strong performance under the SMP would be important steps toward the clearance of arrears to the Fund, and a formal IMF arrangement. Satisfactory performance under such an arrangement would help pave the way toward Liberia's timely participation in the HIPC Initiative and the Multilateral Debt Relief Initiative, and, in turn would lead to a resolution of Liberia's debt overhang. Directors welcomed the start of the work on developing an interim Poverty Reduction Strategy Paper.

Directors noted that the limited availability and poor quality of key economic data continue to hamper effective surveillance. They encouraged the authorities to seek technical assistance, including from the Fund, to improve basic economic data, especially the national accounts, consumer price index, and the balance of payments, as well as basic data on social indicators.

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. The Staff Report for the 2005 Article IV Consultation with Liberia may be made available at a later stage if the authorities consent.

Liberia: Selected Economic and Financial Indicators, 2002–06

	2002 Est.	2003 Est.	2004 Est.	2005 Est.	2006 Proj.
	(Annual percentage change, unless otherwise indicated)				
National income and prices					
Real GDP	3.7	-31.3	2.6	5.3	7.7
Consumer prices (annual average) 1/	14.2	10.3	3.6	6.9	8.0
Nominal GDP (in millions of U.S. dollars)	559	435	497	548	624
GDP deflator (in U.S. dollars)	-0.7	13.3	11.3	4.9	5.7
External sector (in U.S. dollar terms)					
Exports of goods, f.o.b.	30.1	-34.5	-4.7	8.0	2.3
Imports of goods, f.o.b.	-6.3	-3.6	91.4	2.1	13.6
Terms of trade	20.3	21.1	4.9	3.1	2.9
Official exchange rate (Liberian dollars per U.S. dollar; end of period)	65.0	50.5	54.5	56.5	…
Broad money (rate of growth) 2/	n.a.	8.3	49.3	35.7	16.2
Reserve money	n.a.	17.6	31.4	27.2	15.6
Velocity (GDP relative to broad money)	12.5	6.6	5.8	4.9	4.8
	(In percent of GDP)				
Central government operations (January-December)					
Total revenue and grants	13.0	10.9	13.9	15.2	19.0
Of which: total revenue	13.0	10.2	13.7	14.5	15.0
Total expenditure and net lending	14.3	10.3	14.3	14.8	19.0
Of which: current expenditure	4.6	5.6	12.3	13.1	13.7
Overall fiscal balance (cash basis)	-1.3	0.6	0.0	0.0	0.0
External sector					
Current account balance, including grants (deficit, -)	-3.4	-18.2	-13.2	-1.9	-10.8
Of which: public interest payments due	-11.2	-12.1	-12.8	-14.9	-15.9
Current account balance, excluding grants (deficit, -)	-11.0	-22.7	-51.3	-54.2	-59.3
Trade balance (deficit, -)	3.8	-7.1	-33.1	-29.4	-31.4
Exports, f.o.b.	29.8	25.0	20.9	20.5	18.4
Imports, f.o.b.	-26.0	-32.2	-54.0	-49.9	-49.8
Public sector external debt outstanding (total)	545.5	772.8	751.9	667.3	605.4
	(In millions of U.S. dollars, unless otherwise indicated)				
Current account balance including grants (deficit, -)	-19.2	-79.2	-65.5	-10.3	-67.4
Trade balance (deficit, -)	21.1	-31.1	-164.2	-161.4	-195.9
CBL's net foreign exchange position	0.5	-0.3	3.8	9.0	16.1
(in months of imports of goods and services)	0.0	0.0	0.1	0.3	0.5

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

1/ Technical adjustments are made to the CPI for 2004 and 2005 in light of the replacement of some items subject to CPI survey in mid-2004.

2/ Defined as Liberian currency outside banks plus demand, time, and savings deposits in Liberian and U.S. dollars.

Statement by Ms. Antoinette M. Sayeh, Minister of Finance, Republic of Liberia
Executive Board Meeting
April 26, 2006

Along with my colleague and Central Bank Executive Governor Mills Jones, I am very honored to address the Executive Board on behalf of the Government and people of Liberia. My ability to do so marks a new chapter in Liberia's relationship with its international partners and with the IMF in particular. It reflects this institution's recognition of the important strides made over the past three months in returning Liberia to a path of reconstruction and development, and we are deeply grateful for this early vote of confidence.

Political and Social Context

1. Liberia is emerging from two decades of economic mismanagement and 15 years of brutal civil war which devastated our economy and human assets, leaving deep scars in our social fabric. Our peace is still very fragile, made possible in large measure by the presence of some 15,000 United Nations troops. Electricity is the privilege of the fortunate few who own and can purchase fuel for generators, as is running water. More than 80 percent of our labor force is unemployed while basic education and health care remain unavailable or unaffordable for most of our children and people. There are still large numbers of internally displaced persons and ex-combatants who need to return to their homes and who require reintegration into Liberian society. We have accumulated huge external and domestic arrears, and our revenues and resources have been pillaged.

2. This is broadly what President Sirleaf and her administration inherited upon assumption of office earlier this year, after a free and fair election contested by many. We have spared no time in acknowledging and acting on the monumental challenges we face.

Corrective Measures Implemented

3. We immediately set out to restore basic financial management and address long-standing governance problems. To that end, we embraced the Governance and Economic Management Reform Program (GEMAP), notwithstanding its origins as a response to a government seen to be dysfunctional by both the Liberian public and the international community that had abdicated its responsibilities. We do so because we believe GEMAP can be helpful in beginning to tackle the financial management challenges we face. Anxious to have the United Nations sanctions imposed on our timer and diamond exports lifted, we quickly set out to make tangible progress in meeting the requirements.

4. Recognizing the urgency of restoring credibility with our external partners, our government immediately took the actions needed to begin discussions with Fund staff on a Staff Monitored Program (SMP). These included extending the pre-shipment inspection program for imports to rice and petroleum; making the Cash Management Committee operational; implementing measures to increase transparency in the management of

diamond and timber resources; outlining a process of review of all contracts signed by the transitional government; and taking action to stop the hemorrhage in the Central Bank of Liberia's finances. And we signaled our policy of enhancing the accountability of government officials by requiring ministers to declare their assets upon assumption of office.

5. These efforts were complemented by action to collect overdue taxes and cease the practice of non-cash payment of taxes, as well as by measures to rationalize the payroll. As a consequence of the measures taken to date, revenues collected in January-March 2006 were some 34 percent higher than during the same period last year, and above the SMP projections. For the first time in many months, we are current in paying civil servants' salaries and in a position to finance basic operational spending, although inefficiencies in processing line ministries expenditures have constrained operational spending so far.

6. The 150-day plan issued recently – focused on the four key areas of security, economic revitalization, infrastructure and basic social services, and governance and the rule of law -- reflects our commitment to delivering measurable results, and to being held accountable for them. Our people's expectations are high, and showing concrete improvements in their lives – limited electricity, some jobs, improved roads -- is essential to our ability to maintain support for the difficult reforms ahead. To chart a medium-term reconstruction strategy focused on reducing poverty, we have begun work on an Interim Poverty Reduction Strategy, which we hope to complete by end-June 2006. In this connection, let me take this opportunity to express our gratitude for IMF assistance that is helping us formulate a medium-term policy agenda on public expenditure management and revenue enhancement.

Fiscal, Structural, and Monetary Policy Reform Agenda

7. The government is cognizant of the need to rebuild our budgetary institutions to support more effective budget management and ultimately channeling of external assistance through the budget.. To this end we intend to submit legislation to reintegrate the Bureau of the Budget and the Bureau of Maritime Affairs into the Ministry of Finance where they originated. A new public procurement code is being implemented, and financial management is being strengthened through the Cash Management Committee (CMCo). We are reviewing the recommendations of the recently completed IMF report on public expenditure management and believe that their implementation over time will help to significantly strengthen budget preparation, execution, and reporting. Efforts to rationalize and introduce a more competitive import tariff structure are necessary, as are measures to expand the tax base. We expect to begin introducing some of these with the new 2006/2007 budget, on the basis inter alia of a forthcoming IMF mission on tax policy.

8. Our commitment to implementing reforms aimed at rationalizing government institutions to increase their efficiency and responsiveness is strong. In this connection, we have begun work on comprehensive civil service reforms, building on the progress already made in using a civil service census to address payroll irregularities. Here again, we will need donor support in helping to reintegrate redundant civil servants into the private sector.

9. We remain resolutely committed to tackling the endemic corruption which is a major obstacle to Liberia's development. An anti-corruption strategy is being formulated to this end. In addition to civil servants' declaration of assets, a Code of Conduct for public servants is being prepared, and the strategy will also seek to address, inter alia, long-standing weaknesses in the judicial system, as well as the inadequate pay levels that have encouraged corruption.

10. Our reading of post-conflict experience suggests that early identification of constraints to private sector investment is critical to returning the economy to a growth path. To this end, we are currently reviewing the recommendations of a recently completed study of the environment for private sector activity by the World Bank's Foreign Investment Advisory Service. Beyond restoring our traditional sources of growth and exports in the rubber, timber, and iron ore sectors, reforms aimed at encouraging new sources of growth in the secondary sector will be considered.

11. We are cognizant of the need to modernize Liberia's monetary and financial sector in order to keep inflation within manageable levels, support fiscal policy efforts, and create the enabling environment for promoting investment and economic growth. Critical to this effort is the issue of restructuring of the Central Bank to pursue effective monetary policy and ensure the stability of the financial system. We are accordingly seeking Fund technical assistance and advice, with the view to implementing a lasting solution supportive of sustained growth and development.

12. Consolidating our fragile peace should be enhanced by the recent establishment of the Truth and Reconciliation Commission, and by the continued presence of UN troops over the medium term, for which we are deeply grateful.

Developing and Enhancing Capacity

13. The long years of war and mismanagement have undermined capacity and depleted our skilled human resources, many of whom left the country. Ministries and government agencies (as well as the private sector) remain severely short of qualified personnel and skilled staff, particularly at the middle levels. While appreciative of technical assistance from partners in addressing critical gaps in the short term, the government is concerned that capacity building is not being accorded the priority it deserves by donors.

14. Developing and enhancing Liberia's capacity will require a combination of repatriation of Diaspora Liberians, technical assistance to build skills, and creating an environment and civil service that rewards the utilization of knowledge and skills. The Government is currently working on an capacity development strategy to provide the context in which the various donor initiatives are coordinated. In the short term, work is underway with UNDP, and will be initiated with the International Organization for Migration, to support more adequate remuneration on a temporary basis for returning skilled Liberians.

External Assistance and Partnership

15. Given the magnitude and complexity of our reconstruction and development challenges, coordinated and sustained support from the international community will be critical, including through debt relief to address the crippling external debt overhang. With the establishment of a track record already underway, and additional progress to be achieved under the SMP. We believe that the basis is being established for the early clearance of arrears with the three multilateral institutions-IMF, World Bank and the AfDB. We hope to see a de-escalation of the Fund's remedial measures against Liberia, in line with this track record. Meanwhile, we would for consideration to be given at this time to lifting the declaration of non-cooperation, which would be formal recognition of the commitment and effort by the Liberian government to normalize relations with the Fund.

16. We are grateful for the new financial commitments some of our partners have made during these first three months, and look forward to their speedy disbursement, as well as to additional new commitments in line with the ambitious reconstruction agenda ahead. Let me add that the partnership we seek goes beyond just a financial one – we are committed to engaging our partners on our strategic agenda both during and beyond the preparation of the I-PRSP. We have already put in place a forum for this engagement in the form of the Liberia Reconstruction and Development Committee (LRDC) chaired by the President and its sub-committees (consistent with the 150-day plan, these are security, economic revitalization, infrastructure and basic services, and governance and the rule of law).

17. We look to the international community not only for financial resources, but for assistance in the rebuilding our institutions and capacity, and in providing policy advice and technical assistance. The new government is committed to ensuring that international support to Liberia is well coordinated, efficiently utilized and accounted for. We look forward to discussing our medium-term strategy, the acceleration of disbursements from existing donor commitments, and the steps to clear our external arrears at the two partnership meetings we plan to organize in July and September this year.

Conclusion

18. The government faces the monumental challenges of implementing reforms to lay the basis for reconstruction and development, while showing concrete progress quickly, in order to consolidate Liberia's fragile peace and meet the very high expectations of our people. In addition to our own steadfast commitment, tackling these challenges requires urgent debt relief as well as sustained and coordinated donor support for many years to come. We have set out to build the track record required to make the case for this, and are thankful for the hard work of Fund staff that has made Executive Board consideration of an SMP possible at an early date. We are indeed encouraged by the goodwill shown by all of our partners, and look forward to their continued engagement with us in consolidating Liberia's peace and improving the lives of its desperately poor people.