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Liberia: 2011 Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Extension of the Arrangement, and Augmentation of Access—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Liberia.

In the context of the sixth review under the three-year arrangement under the Extended Credit Facility, request for extension of the arrangement, and augmentation of access, the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Extension of the Arrangement, and Augmentation of Access prepared by a staff team of the IMF, following discussions that ended on April 9, 2011, with the officials of Liberia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 8, 2011. 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 supplement on the Debt Sustainability Analysis.

- A Press Release summarizing the views of the Executive Board as expressed during its June 27, 2011 discussion of the staff report that completed the review.

- A statement by the Executive Director for Liberia.

The documents listed below have been or will also be separately released.

Letter of Intent sent to the IMF by the authorities of Liberia*
Memorandum of Economic and Financial Policies by the authorities of Liberia*
Technical Memorandum of Understanding*
*Also included in the staff report

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

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LIBERIA

Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Extension of the Arrangement, and Augmentation of Access

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

Approved by Seán Nolan and Jan Kees Martijn

June 8, 2011

Overview: Against a backdrop of rising international food and fuel prices and adverse spillover effects from the conflict in neighboring Côte d'Ivoire, the Liberian authorities continued to implement sound fiscal and monetary policies. Budget execution was slow, particularly in respect of capital projects, leading to a significant build up of government deposits at the Central Bank of Liberia. Consequently, gross official reserves (including government deposits) reached three months coverage of imports of goods and services at end-2010. The central government budget for the next financial year, starting July 2011, is fully financed and consistent with the authorities' post-completion point debt strategy. It contains selective measures to address fuel price increases and funding for presidential and legislative elections scheduled for October 2011.

The discussions for the sixth review of the ECF arrangement took place in Monrovia during March 28–April 8, 2011. The mission comprised of Mr. Lane (head), Messrs. Oestreicher, Sobolev and Yoon (all AFR), and Mr. Cipollone (SPR). Mr. Graham (World Bank) joined some of the discussions.

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

Program performance. All performance criteria under the program through December 2010 were observed. Completion of three structural benchmarks faced some delays although other structural reforms continued to advance.

Request for extension. The authorities requested that the ECF arrangement be extended to March 31, 2012 to help meet a balance of payments need. An augmentation of access equivalent to about 6.8 percent of quota is requested (SDR 8.88 million), which would bring total access to 32.5 percent of quota.

The authorities' Letter of Intent, Supplementary Memorandum of Economic and Financial policies, and the Technical Memorandum of Understanding are in Appendix I.

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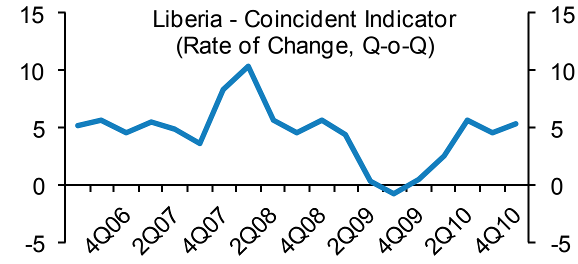
Abbreviations and Acronyms

BADEA	Bank Arab for Economic Development in Africa
CBL	Central Bank of Liberia
CPI	Consumer Price Index
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
FDI	Foreign Direct Investment
FY	Fiscal Year
GAC	General Auditing Commission
GDP	Gross Domestic Product
GSM	Global System for Mobile Communications
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
IT	Information Technology
LISGIS	Liberia Institute of Statistics & Geo-Information Services
LTU	Large Taxpayer Unit
MDG	Millennium Development Goals
MEFP	Memorandum of Economic and Financial Policies
MOF	Ministry of Finance Liberia
MOU	Memorandum of Understanding
NPL	Non-performing Loans
PFM	Public Financial Management
PPCC	Public Procurement and Concessions Commission
PRS	Poverty Reduction Strategy
SDR	Special Drawing Rights
SME	Small and Medium-sized Enterprise
SUT	Supply and Use Tables
TMU	Technical Memorandum of Understanding
WAMZ	West African Monetary Zone

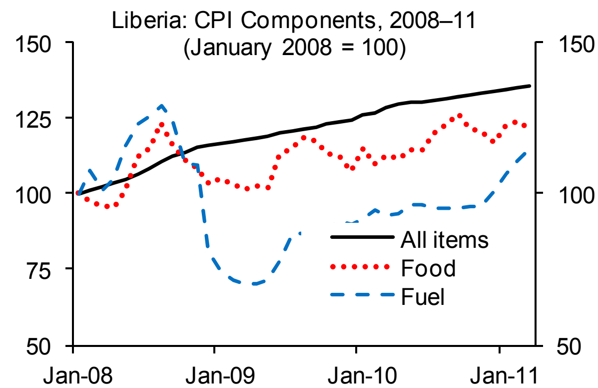
I. Introduction and Recent Developments

1. **The pace of economic growth picked up moderately in 2010** (Figure 1, Table 1). Construction and tertiary activities contributed to estimated real GDP growth of 5½ percent, compared with 4½ percent in 2009—the growth pickup was less than expected due to declining rubber production and infrastructure constraints that have blocked an anticipated expansion of timber exports.



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

2. **Inflation has been moderate and the exchange rate broadly stable**. Twelve-month consumer price inflation has been in the range of 6–9 percent since January 2010. The exchange rate against the US dollar has traded in a relatively narrow band, with Central Bank sales in the foreign currency auction marginally lower in 2010 than the previous year. An accumulation of government deposits boosted gross official reserves to over three months import coverage at end-2010 (Table 2 and 3).[1]



Source: Central Bank of Liberia.

3. **The social and political situation has remained generally calm, with legislative and presidential elections scheduled for October 2011**. Unrest in Côte d'Ivoire has resulted in spillovers of refugees and combatants in the south east of Liberia, though the situation has so far remained manageable. The number of refugees has stabilized at around 165,000 as the rate of new arrivals is down significantly following the cessation of open conflict and some refugees have begun to return home. The UN and various international agencies are providing humanitarian assistance to the refugees while the government of Liberia is playing a facilitating role.

4. **Performance against the quantitative program was satisfactory**. All performance criteria through end-December 2010 were comfortably met. However, implementation of three structural benchmarks through end-March 2011—relating to publication of national accounts statistics, extension of the ASYCUDA system, and financial reporting of state enterprises—was slower than expected although, more broadly, reform implementation continued to advance (Appendix I, Tables 1a and 2).

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[1] The ECF-supported program sets a floor on the foreign currency position of the CBL excluding government foreign currency deposits. These deposits are not viewed as available for CBL monetary operations due to the high level of government spending in US dollars.

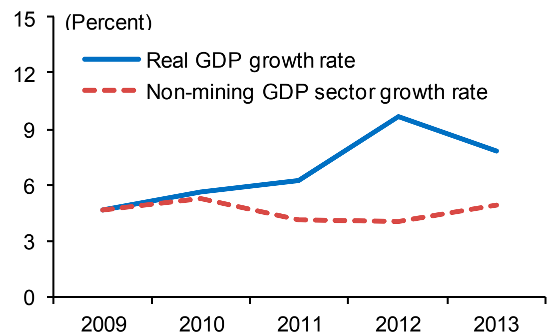
II. Program and Policy Discussions

A. Macroeconomic Outlook

5. **The recovery is gaining traction and the near-term outlook is generally positive** (Table 4). Real output growth is expected to accelerate to about 6 percent in 2011 with the start of iron ore production in the third quarter. Rising food and fuel import prices will raise inflation during 2011, though it is expected to remain in single digits with broad exchange rate stability. Against this background a modest increase in reserves is anticipated as the counterpart to an increase in demand for local currency holdings.

6. **Medium-term prospects are favorable, supported by large foreign investment commitments and steady non-mining GDP growth**. New investment in iron ore and commercial agriculture and a rebound in rubber prices are expected to drive an overall pick-up in growth.

Liberia: Medium-term GDP Growth Outlook



Source: IMF staff estimates and projections.

7. **The authorities have requested an extension of the ECF to cover implementation of their economic and structural reform program through the end of 2011, in parallel with an extension of their Poverty Reduction Strategy**. The program envisages a continuation of prudent macroeconomic policies and consolidation and completion of structural reforms launched under the program since 2008.

B. Fiscal Policies

8. **The fiscal position strengthened in the first three quarters of FY2011** (Tables 5a–5b). Overall inflows remain well above budgeted levels, even after accounting for the delay of US$22 million in budgetary grants to FY2012.[2] Tax revenue was boosted by a petroleum sector payment not anticipated in the budget, a postponement of income tax cuts to January 2011 and higher customs revenues. With significant difficulties experienced in executing the investment program (Box 1), the fiscal surplus reached an estimated 2½ percent of annual GDP at end-March 2011.

[2] US$15 million of the delayed budgetary grants result from revisions to the medium-term financing envelope for Liberia from the African Development Bank and the balance reflects delays in meeting World Bank disbursement triggers.

Box 1. Shortfalls in Capital Expenditure in FY2011

Capital spending in the first nine months of FY2011 is well below budget. The shortfalls result from:

- A delay in the passage of the FY2011 budget;
- A lack of capacity to design projects, and to attain the standards required by the procurement system, particularly in respect of procurement plans, project designs and tender documents;
- A limited number of private sector contractors, which also creates bottlenecks and drives up costs.

9. **Buoyant revenues and difficulties in executing capital spending prompted the authorities to amend expenditure plans in mid-FY2011**. Budget contingency expenditures were activated and a supplementary budget was proposed to reallocate spending towards urgent priority expenditures (in the total amount of 3½ percent of GDP). Staff welcomed the concentration of additional spending in priority areas, but nonetheless expressed concern that the underlying problem of executing capital projects remained, and would eventually jeopardize medium-term development. The authorities maintained that end-year spending could still accelerate, which they would finance by drawing down deposits.

Liberia: Adjustments to FY2011 Budget Expenditure

	(US$ millions)	(Percent of GDP)
Capital	10	1.0
Current	21	1.9
Security & elections	7	0.7
Health	7	0.6
Other	7	0.7
Transfer to reserve fund	1	0.1
Domestic arrears	6	0.6
Total	39	3.6

Source: Liberian authorities.

10. **The FY2012 budget submitted to the legislature on May 5 is based on realistic revenue estimates, prudent borrowing consistent with the post-HIPC debt management strategy, and a careful prioritization of expenditures**.

- Core tax revenue estimates incorporate tax policy changes in the Liberian Revenue Code—submitted to the legislature in parallel to the budget—that will more closely align the tax code with regional partners and best international practice.
  In the aggregate, the tax code revisions would result in somewhat lower tax revenues, as additional revenue from indirect taxes, mainly on services, would be outweighed by losses from income tax reductions and customs revenues. The losses on customs

revenues result from the switch to GATT valuation of goods, fuel import duty exemptions (see below), and the phased adoption of the ECOWAS common external tariff with frontloaded rate reductions (Appendix II).

- Assumptions concerning foreign borrowing are conservative. The authorities envisage receiving a total of US$20 million (1.6 percent of GDP) in World Bank IDA credit disbursements, of which US$5 million is budget support and the remainder project financing. No domestic borrowing is envisaged as the authorities expect core revenues to be bolstered by significant contingent revenues (see below).

- The Fund-supported program monitors core revenue and expenditure plus World Bank financed projects. The FY2012 budget contains US$88 million (7 percent of GDP) of contingent revenues and grants (MEFP ¶9) and matching contingent expenditures. The authorities will review contingent revenues quarterly and, if appropriate, authorize additional expenditure. Additional spending related to contingent revenues received would be discussed with staff in the context of program reviews.

- Staff considers the budgeted expenditure level to be sustainable. No across the board wage increases are proposed given the rise in disposable income resulting from the reduction of personal income taxes, although targeted increases are planned for teachers, health workers and security forces. Core and contingent spending remain focused on the four main pillars of the Poverty Reduction Strategy, with contingent spending largely confined to one-off outlays and earmarked spending. Staff noted the importance of the planned adoption of medium-term expenditure planning in FY2013 to better assess fiscal sustainability issues.

- Social and other priority spending will be monitored through an indicative target covering education and health spending, rather than the previous broader target that had proved difficult to track (MEFP ¶10). The level of capital spending, including World Bank loan financed projects, increases to US$68 million (5.4 percent of GDP) slightly above the expected FY2011 outturn.

11. **The authorities view capacity constraints in project execution as a budgetary risk**. Staff analyzed the problems encountered in project budget execution and identified a number of measures to improve performance in FY2012 (Box 2). The authorities generally agreed with the recommendations and indicated their intention to proceed broadly in this direction, noting in particular that the FY2012 project budget would be focused on a few strategic projects in ports, energy and roads (MEFP ¶11).

Box 2. Recommendations to Improve Project Budget Execution

- Passing the annual budget in a more timely manner;
- Assigning priority to re-appropriating funds for FY2011 projects that are at an advanced preparatory stage;
- Consolidating the project budget into fewer, larger projects to better leverage existing scarce capacity;
- Beginning the procurement process early, prior to passage of the budget; and,
- Increasing capacity in line ministries and agencies in designing projects and navigating the procurement process.

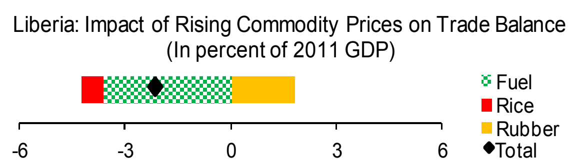
12. **The authorities emphasized that fuel and food prices are adding to the challenge of further consolidating macroeconomic and social stability**. They anticipate using donor support to mitigate the impact of rising food prices. Staff welcomed the authorities' full pass through of the recent increases in international oil prices and the outline of measures under consideration (MEFP ¶12 and Box 3).

Box 3. Response to Rising Food and Fuel Prices

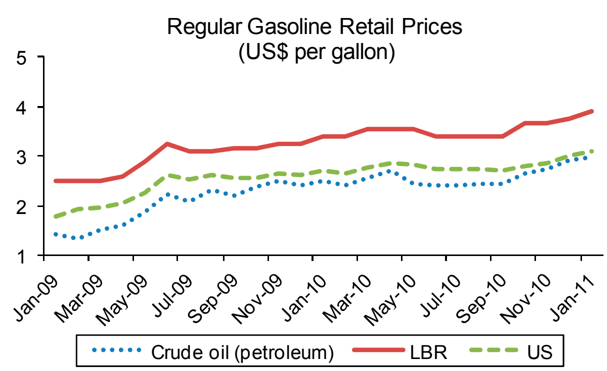
Projected rice and fuel price increases of 25 percent in 2011 would raise the import bill by US$50 million (4.3 percent of GDP). The trade balance impact would be partially offset by rising rubber prices.

To cushion consumers, exemptions from fuel import duties were authorized for schools, clinics, hospitals and the state-owned electricity company (revenue loss equivalent to 0.2 percent of GDP). A subsidy to Monrovia Transit Authority is being considered to help stabilize public transportation prices (0.1 percent GDP).

To ensure access to food for vulnerable households, the authorities are working with the World Food Program to institute school feeding programs in urban areas and food-for-work and cash-for-work programs in rural areas until the next harvest season.



Source: IMF staff projection.



Sources: IMF; Liberia Petroleum Refining Company; and US Energy Information Administration.

C. Monetary and Financial Policy

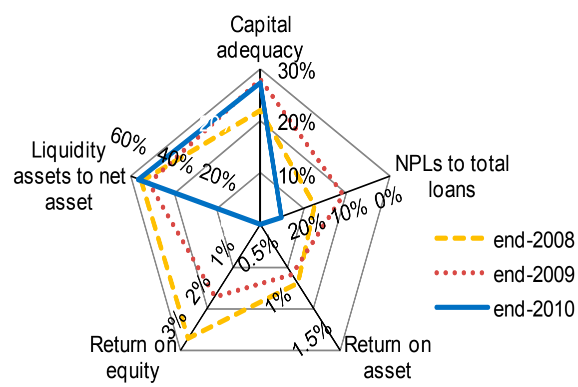
13. **Monetary policy in 2011 continues to aim at maintaining broad exchange rate stability while protecting the foreign currency reserve position** (MEFP ¶14–15).
The 2011 monetary program envisages an underlying increase of foreign exchange reserves of US$10 million plus Fund purchases. The program incorporates a margin in setting the foreign

reserves floor to accommodate the operational needs of the CBL including: additional sales of foreign exchange in the currency auction to address exchange rate volatility; a credit stimulus scheme (see below); and a potential cash-flow operating deficit at the CBL related to the planned rehabilitation of its headquarters. Staff reiterated the view that while the CBL reserve position has strengthened—in particular due to the SDR allocation in 2009—the underlying rate of increase is modest, given high levels of dollarization.

14. **Steps to expand the liquidity management tools of the central bank will help develop control over monetary conditions** (MEFP ¶19). High dollarization and excess liquidity in Liberian dollars limit the effectiveness of monetary policy. Weekly foreign exchange auctions to manage liquidity are effective but volumes are modest. The launch of a local currency Treasury bill market will help enhance liquidity management capacity. Staff support the authorities' intention to introduce central bank notes if the treasury bill program faces further delay.

15. **Financial intermediation increased, but financial sector stability indicators deteriorated somewhat in 2010** (Appendix II). The banking sector balance sheet expanded by nearly one third. However, the credit expansion was accompanied by a significant increase in the share of non-performing loans (NPLs).

Liberia: Barometer of Financial Soundness



Source: Central Bank of LIberia.

16. **Risks in the banking system require careful monitoring (MEFP ¶16)**. To address the rising ratio of NPLs the CBL has shortened the cycle of on-site targeted credit examinations and off-site surveillance, and encouraged commercial banks to strengthen their internal risk management guidelines. Publication of the Commercial Code, which has been delayed by technical revisions, could also help improve the NPL situation by improving the legal framework for asset recovery.

17. **The transition to risk-based supervision remains on course** (MEFP ¶17). Efforts to fully implement risk-based supervision procedures include building staffing capacity, improving computerization, and strengthening on- and off-site bank supervision. System-wide adoption of international financial reporting standards (IFRS) is on track and scheduled to start by end-2012. Cross-border consolidated supervision is improving through a memorandum of understanding with the West African Monetary Zone (WAMZ) for supervisory cooperation and exchange of information.

D. Structural Reforms and Poverty Reduction Strategy

18. **The authorities aim to consolidate ongoing fiscal reforms in the remainder of 2011**:

- A revised structural benchmark is set on establishing financial reporting by state owned enterprises as required by law (MEFP ¶13). New structural benchmarks are set on the launching of the pilot phase of the Financial Management IT System in mid-2011 and creating a small mining tax assessment team in the Large Taxpayer Unit (LTU) to prepare for the anticipated expansion of the minerals sector (MEFP ¶24).

- In revenue administration, the customs data system will be extended to the international airport (completing an existing benchmark that has been delayed due to lack of financing); and a new IT system for tax administration will be introduced in phases, starting in the LTU (MEFP ¶24).

- Audit capacity will be strengthened (MEFP ¶24): the General Auditing Commission will assist key ministries to implement existing external audit recommendations; audits of the consolidated government accounts for FY2009 and FY2010 will be completed; and the governing structure for internal audit will be set in place with the appointment of a Central Internal Audit Governance Board and separate audit committees in eight key ministries. The authorities also intend to expand revenue transparency through implementing the Extractive Industries Transparency Initiative++ (which uses a value chain approach to fiscal terms and payments in the mining, agriculture and forestry sectors).

19. **Financial sector policies to support inclusive growth over the medium term are moving forward** (MEFP ¶18). Reforms will increasingly focus on expanding the range of financing options for the private sector (Box 4). Key interventions for 2011 are (i) developing a road map for capital market development and interim regulations (end-December 2011 structural benchmark); (ii) facilitating mobile banking; (iii) encouraging expansion of the microfinance sector; and (iv) extending the WAMZ payments system to Liberia.

20. **Continued efforts are needed to finalize compilation of national accounts statistics** (MEFP ¶27). A draft report for 2008 has been prepared by the statistical authority LISGIS. It suggests that economic activity has been significantly underestimated although the data sources may not support very reliable estimates. A desk-based review is underway to validate the data.

Box 4. CBL Credit Stimulus Initiative

In November 2010, the CBL launched an initiative to expand small and medium enterprises' (SME) access to credit. US$5 million of CBL funds were deposited at commercial banks at below market terms (3 percent interest, 3 year maturity and 6 months grace) for lending to SMEs. Banks may on-lend these funds to firms in 15 eligible manufacturing industries. Loans must be of at least 12-months maturity, with interest capped at 8 percent. Banks accept all credit risk.

Success will hinge on banks identifying lending opportunities with a level of risk at or below the proposed lending margin of 5 percent —well below a regional peer group average (7 percent plus annual inflation rate).[1] Staff views the interest margin as insufficient for a profitable expansion of SME credit.

[1/] Crowley, J., 2007, "Interest Spreads in English-Speaking African Countries," IMF Working Paper (WP/07/101).

E. Debt and External Policies

21. **The authorities have made substantial progress in finalizing rescheduling agreements with remaining creditors** (MEFP ¶25). Bilateral agreements were finalized with all but one Paris Club creditors before the March 2011 deadline, and agreement with the remaining creditor is imminent. Regarding non-Paris Club official debt, the authorities signed an agreement with Kuwait in line with HIPC Initiative terms. Discussions with other official creditors have advanced except with Taiwan, Province of China.

22. **An update of the external debt sustainability analysis (DSA) confirms the low risk of debt distress rating**. The net present value of the external debt would remain low and sustainable throughout the projection period. However, the debt ratios are sensitive to lower exports and less favorable financial terms of new borrowing. Similarly, the public debt is vulnerable to lower GDP growth (in line with the historical average) and a higher pace of debt accumulation. Concessional borrowing is expected to resume in FY2012 with four projects recently approved by the World Bank. Two additional projects are under negotiation. The authorities recently issued a state guarantee to a state enterprise in the amount of US$0.25 million for borrowing from a domestic commercial bank.[3]

III. Program Modalities and Monitoring

23. **The authorities have requested a 9-month extension of the ECF arrangement to March 31, 2012 to complete and consolidate reforms launched under the program**. In view of a continued balance of payments need, evidenced by a large current account deficit, and still moderate holdings of foreign reserves, staff supports the Liberian authorities' request.

[3] The program incorporates a non-zero ceiling on foreign currency borrowing of the public sector.

An augmentation of the ECF arrangement by SDR 8.88 million is proposed (equivalent to about 6.8 percent of quota and 1.2 percent of GDP) —the level of annual access provided in the second and third years of the arrangement—which will close a residual financing gap and bring cumulative access to 32.5 percent of quota. The capacity to repay the Fund remains high (Table 6). The request would also allow a possible successor program to align with a new PRS—currently under preparation—as well as with the election cycle.

24. **Staff supports the following program modifications**:

- As noted above, a new indicative floor on education and health spending in FY2012 (MEFP ¶10).
- The performance criterion on the CBL payment arrears is discontinued because it is no longer critical to program objectives (MEFP ¶21).
- Performance criteria be established for June 30, 2011 and December 31, 2011 (MEFP Table 1b) with the seventh and eighth reviews scheduled for September 15, 2011 and March 15, 2012 respectively.

IV. Staff Appraisal

25. **Staff welcomes the continued progress in the implementation of the program**. The economy continues on an upward trajectory, boosted by foreign direct investment. Budgetary control remains firm. The financial sector is expanding while bank supervision is being strengthened to address emerging weaknesses. Administrative reforms continue, and the authorities have appropriately decided to consolidate and complete reforms already underway in the period through end-2011.

26. **Capacity bottlenecks have delayed the FY2011 capital investment program—posing a clear risk to achieving more rapid growth in the future and leading to a temporary build-up of government deposits at the CBL**. The authorities have taken broadly appropriate measures to increase spending in other needed areas in FY2011 while also beginning to tackle the impediments to public investment. With a clear diagnosis of the issues that need to be tackled, and support from the international community, an improved performance in FY2012 is feasible.

27. **The FY2012 budget provides a prudent framework for executing core revenue and expenditures, while recognizing some upside potential from lumpy contingent revenues and grants.** The authorities have adequate experience with adjusting budget parameters mid-year and staff believe the approach adopted gives sufficient flexibility in execution while maintaining overall budgetary control.

28. **The CBL is becoming more proactive in developing the financial sector to support growth while maintaining macroeconomic stability**. Liquidity management tools have been developed and efforts are ongoing to develop credit to the private sector, the payments system

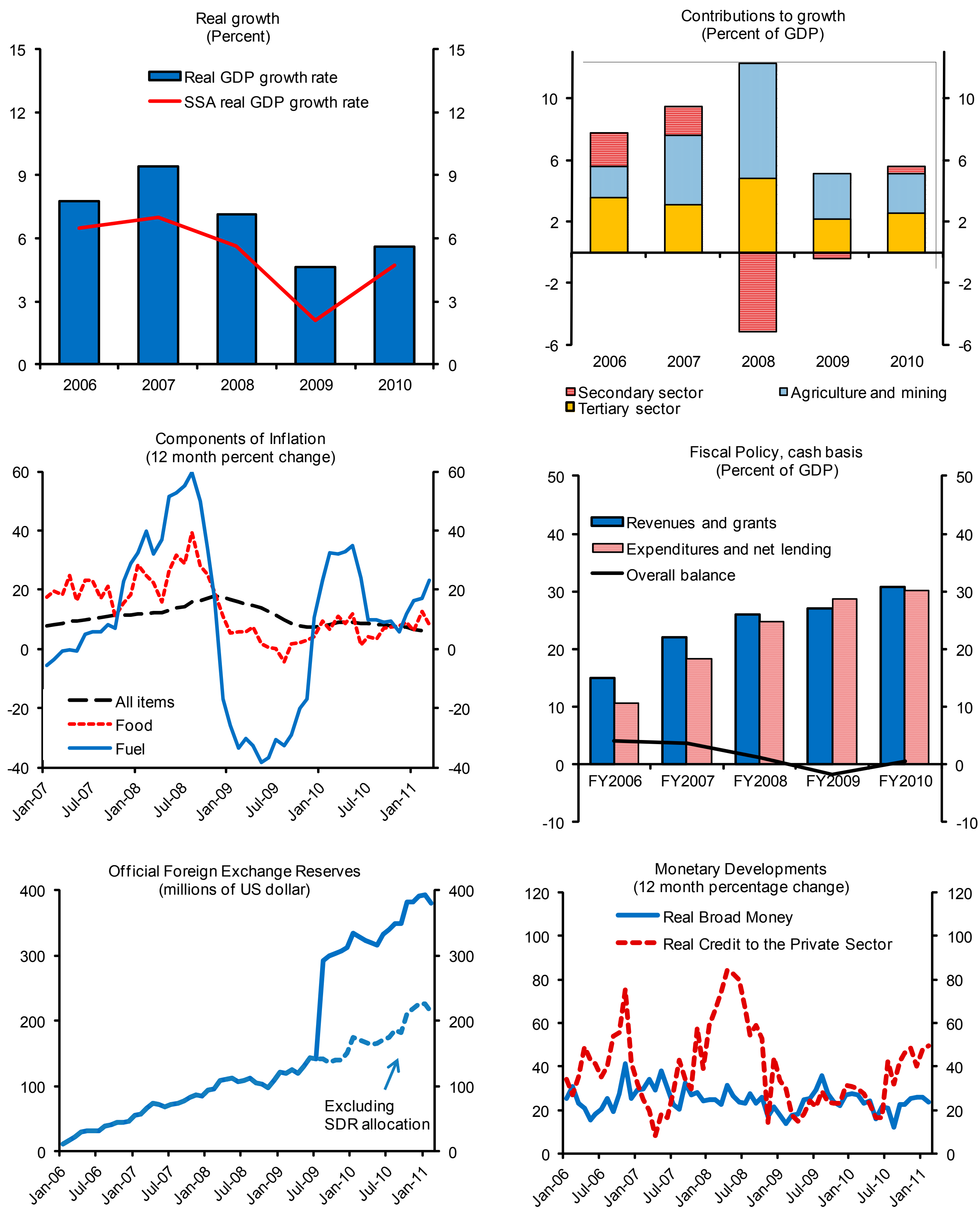
and mobile banking. With rising non-performing loans a concern, efforts should be taken to improve the credit environment, particularly through the introduction of the Commercial Code and the start up of a new commercial court.

29. **The authorities have advanced the remaining debt rescheduling agreements consistent with the HIPC Initiative terms**. Staff call upon creditors that have not yet reached agreements to offer terms comparable to those offered by the vast majority of official and commercial creditors.

30. **Against these generally positive internal developments, external risks have risen**. The ongoing increase of international fuel and food prices may be a drag on consumption growth in the period ahead. The authorities have so far been resolute in passing through fuel price increases, as the economic rationale for price control or subsidies is weak. The FY2012 budget contains broadly appropriate targeted measures, but donor support to selectively cushion the impact of food price increases remains of high importance given the large proportion of the population that is vulnerable to price increases of staple foods.

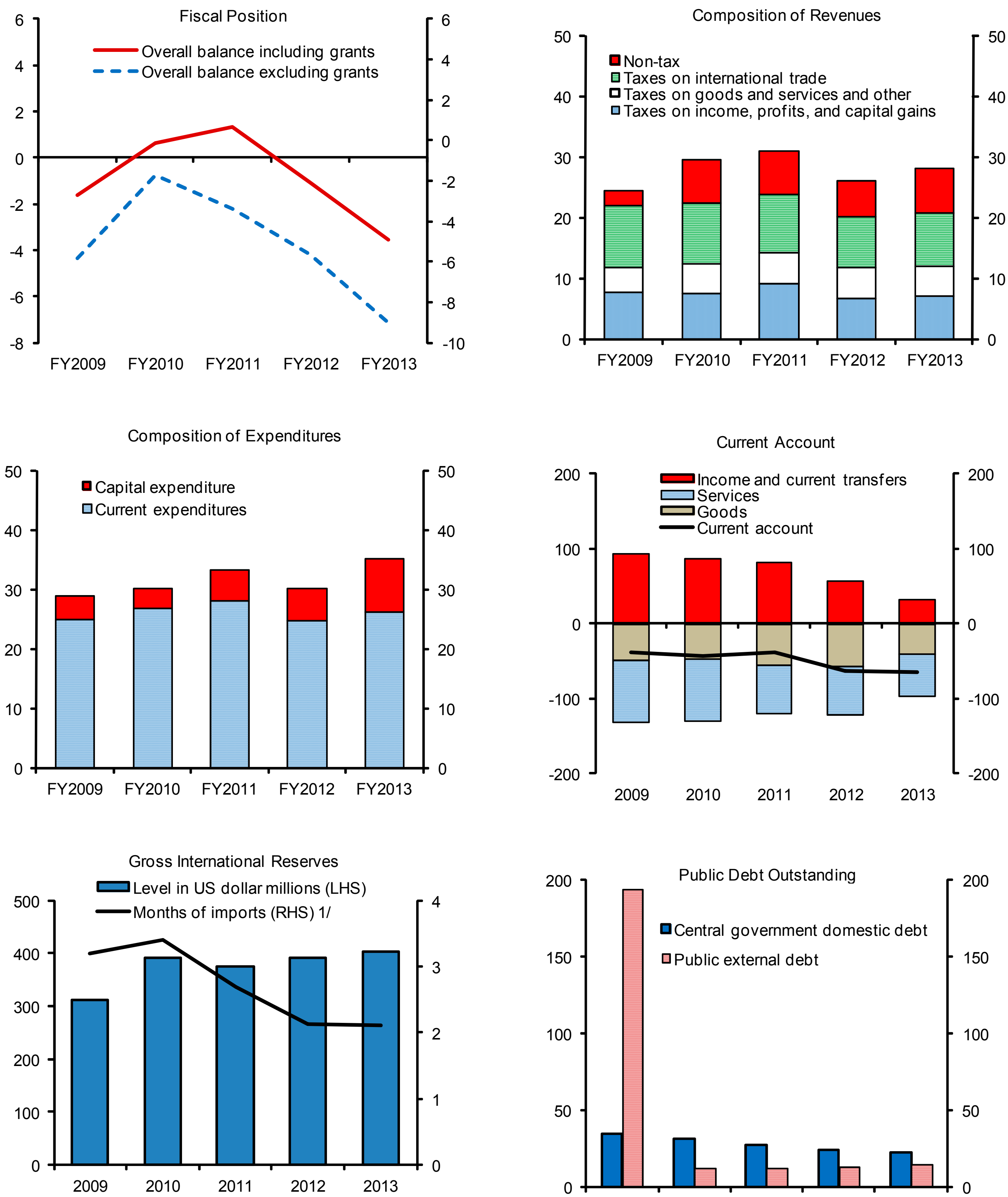
31. **Staff supports the completion of the sixth program review, and the proposed extension and augmentation of the arrangement**. The extended arrangement will support a continued gradual increase of foreign exchange reserves, encourage much-needed catalytic financing for budgetary purposes and provide a framework for the authorities to monitor their ongoing reform efforts.

Figure 1. Liberia: Recent Economic Developments



Sources: Liberian authorities; and IMF staff estimates.

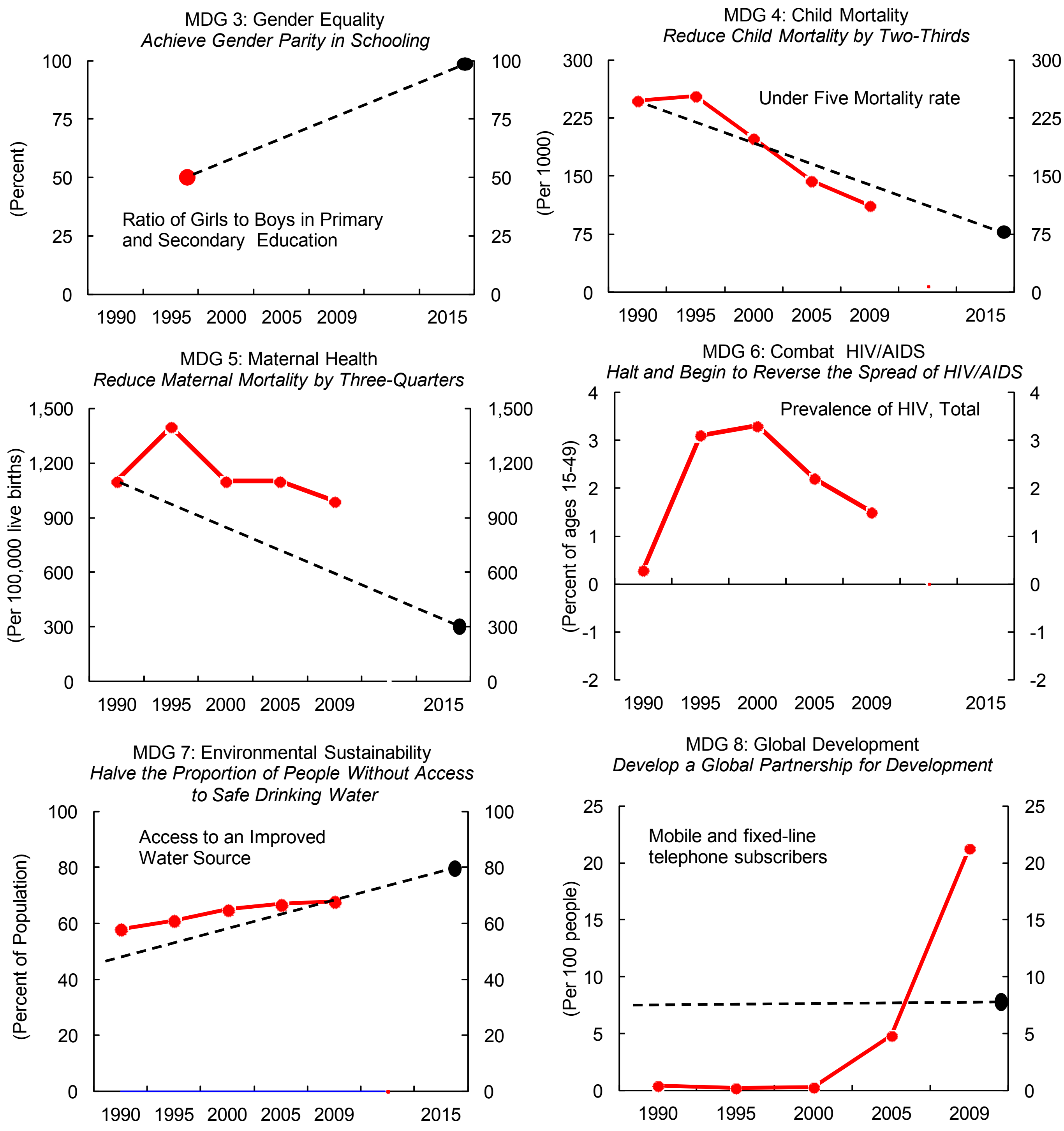
Figure 2. Liberia: Medium-term Fiscal and Balance of Payments Outlook, 2009–13
(Percent of GDP)



1/ Excluding UNMIL imports.

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

Figure 3. Liberia: Millennium Development Goals Progress Report, 1990-2015



Source: World Bank, World Development Report 2010.
Note : Solid line indicates observed performance, while dotted line indicates required achievement.

Table 1. Liberia: Selected Economic and Financial Indicators, 2009–13

	2009	2010		2011		2012	2013
		5th Review 1/	Prel.	5th Review 1/	Proj.	Projections	
	(Annual percentage change, unless otherwise indicated)						
National account and prices							
GDP at constant prices	4.6	6.3	5.6	8.8	6.8	9.6	7.8
GDP deflator (US dollars)	-1.2	4.5	6.4	-0.8	9.2	7.0	2.1
Nominal GDP (millions of US dollars)	880.3	976.6	989.1	1,054.1	1,153.9	1,353.0	1,488.1
Nominal GDP per capita (US dollars)	242.9	255.3	261.8	265.8	297.7	340.2	364.7
Consumer prices (average)	7.4	7.4	7.3	4.2	8.1	5.8	5.2
Consumer prices (end of period)	9.7	4.7	6.6	4.6	6.1	5.4	5.0
Consumer prices (US dollar denominated, year-on-year)	2.4	0.7	1.3	0.8	3.6	3.0	1.1
External sector							
Exports, f.o.b.	-39.7	34.8	40.4	52.5	41.3	86.2	40.6
Imports, f.o.b	-19.0	13.6	17.4	61.1	38.5	41.9	5.4
Terms of trade (deterioration -)	-9.3	66.1	75.4	-20.6	9.7	0.2	-0.3
Average exchange rate (local currency per U.S. dollar)	68.3	…	71.4	…	…	…	…
Nominal effective exchange rate change (depreciation -)	-2.5	…	-2.9	…	…	…	…
Real effective exchange rate (depreciation -)	3.9	…	2.6	…	…	…	…
Import coverage of reserves excluding UNMIL imports (months)	3.2	2.6	3.4	2.0	2.7	2.1	2.1
Gross official reserves (millions of US dollars)	312.2	317.1	391.4	329.8	425.1	452.0	462.0
Money and credit							
Net foreign assets	1.4	127.7	149.8	6.0	0.1	-3.9	-3.5
Net domestic assets	5.7	-72.0	-79.9	32.4	61.4	49.0	24.5
Net claims on central government	-0.2	-81.5	-84.4	-4.6	9.5	1.7	-0.5
Claims on nongovernment	42.2	1.2	27.0	6.7	35.6	31.6	18.8
Other items (net)	1.9	-17.5	-10.0	10.2	0.8	-0.8	0.0
Broad money (M2)	24.1	13.9	33.5	5.4	15.2	16.5	10.3
Reserve money	2.1	10.8	32.0	8.8	7.2	13.4	11.8
Velocity (GDP-to-M2)	2.7	2.7	2.3	2.6	2.3	2.3	2.3
Money multiplier (M2/M0)	4.8	5.8	5.4	5.6	5.8	6.0	5.9
	(Percent of GDP)						
External sector							
Current account balance							
(including official grants)	-38.3	-40.4	-43.5	-59.2	-37.8	-62.9	-64.6
(excluding official grants)	-142.8	-152.0	-142.4	-149.3	-121.6	-127.8	-117.7
Trade balance	-47.8	-46.1	-46.4	-70.4	-54.6	-56.0	-40.3
Exports, f.o.b.	17.4	21.2	21.8	29.9	26.4	41.9	53.5
Imports, f.o.b	-65.2	-67.3	-68.1	-100.3	-80.9	-97.9	-93.8
Central government budget 2/							
Total revenue and grants	27.1	31.0	30.8	35.3	34.5	29.0	31.7
Of which: total revenue	24.4	29.6	29.4	29.4	31.0	25.9	28.0
Total expenditure and net lending	28.7	30.4	30.2	35.8	33.2	30.1	35.2
Of which: current expenditure	24.8	27.0	26.8	27.5	28.1	24.6	26.1
capital expenditure	3.9	3.4	3.4	8.3	5.1	5.4	9.1
Overall fiscal balance (including grants)	-1.6	0.6	0.6	-0.5	1.3	-1.1	-3.5
Overall fiscal balance (excluding grants)	-4.3	-0.8	-0.8	-6.4	-2.2	-4.2	-7.1
Public external debt	190.6	8.9	11.3	15.6	10.9	11.7	13.7
Central government domestic debt	34.2	31.5	31.4	29.7	27.3	24.3	22.3

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

1/ IMF Country Report No. 10/373, December 2010.

2/ Fiscal year ending in June on a cash basis, i.e., 2011 = FY2010/11.

Table 2. Liberia: Balance of Payments, 2009–13
(Millions of US dollars, unless otherwise indicated)

	2009	2010		2011		2012	2013
		5th Rev	Prel.	5th Rev	Proj.	Projections	
Trade balance	-421	-445	-459	-735	-630	-758	-600
Exports, f.o.b.	153	207	215	315	304	566	796
Of which: rubber	93	136	156	138	202	204	215
Imports, f.o.b	-574	-652	-674	-1,050	-934	-1,324	-1,396
Services (net)	-741	-847	-831	-817	-760	-875	-845
Of which: UNMIL services 1/	-455	-455	-455	-418	-418	-342	-266
Income (net)	-145	-179	-182	-117	-99	-183	-394
Of which: public interest payments due 2/	-111	-108	-109	-1	-1	-1	-1
Of which: IMF	1	0	-1	0	-1	0	0
Current transfers	970	1,082	1,040	1,052	1,052	965	878
Donor transfers (net)	920	1,019	978	967	967	878	789
Of which: UNMIL transfers	600	600	600	550	550	450	350
Private transfers (net)	50	63	63	85	85	87	89
Current account balance	-337	-395	-431	-624	-436	-851	-961
Current account balance, excluding grants	-1,257	-1,414	-1,408	-1,592	-1,404	-1,730	-1,751
Capital and financial account (net)	371	1,136	1,250	635	446	861	971
Capital account (HIPC debt relief) 3/	1,526	1,439	1,439	0	0	0	0
Financial account	-1,156	-303	-189	635	446	861	971
Foreign direct investment (net)	153	340	398	602	431	821	903
Portfolio investment (net)	0	0	0	0	0	0	0
Other investment (net)	-1,309	-644	-587	33	16	40	68
Official financing: Medium and long-term (net)	-1,373	-670	-673	23	2	22	46
SDR allocation	163	0	0	0	0	0	0
Disbursements	0	3	0	27	6	28	52
Amortization	-1,536	-673	-673	-4	-4	-6	-6
Private financing (net) 3/	64	26	86	10	14	18	23
Errors and omissions	20	0	0	0	0	0	0
Overall balance	54	746	820	11	10	10	10
Financing	-54	-746	-820	-11	-10	-10	-10
Change in gross official reserves (increase -) 4/	-183	-5	-79	-18	-24	-17	-10
Net use of Fund credit and loans	18	-850	-849	7	14	7	0
Disbursements	18	13	14	7	14	7	0
Of which: proposed ECF financing	0	0	0	0	7	7	0
Repayments	0	-863	-863	0	0	0	0
Exceptional financing	111	108	108	0	0	0	0
Debt forgiveness	1,526	1,439	1,439	0	0	0	0
Change in arrears 5/	-1,526	-1,439	-1,439	0	0	0	0
Debt rescheduling plus HIPC interim debt relief 6/	111	108	108	0	0	0	0
Memorandum items:							
Current account balance (percent of GDP)							
Including grants	-38.3	-40.4	-43.5	-59.2	-37.8	-62.9	-64.6
Excluding grants	-142.8	-144.8	-142.4	-151.0	-121.6	-127.8	-117.7
Trade Balance (percent of GDP)	-47.8	-46.1	-46.4	-70.4	-54.6	-56.0	-40.3
Donor transfers (net, percent of GDP)	104.5	104.4	98.9	91.8	83.8	64.9	53.0
Public sector external debt (medium and long-term)							
Debt outstanding, including arrears	1,678	87	112	101	126	159	204
(percent of GDP)	190.6	8.9	11.3	9.6	10.9	11.7	13.7
Debt service charges (after relief)	0.0	2.1	2.2	5.7	5.8	7.3	7.4
(percent of GDP)	0.0	0.2	0.2	0.5	0.5	0.5	0.5
Terms of trade (2000=100)	122.3	200.9	214.5	159.4	235.5	235.9	235.3
Gross official reserves	312.2	317.1	391.4	336.8	425.1	452.0	462.0
Gross official reserves (months of imports) 7/	3.2	2.6	3.4	2.0	2.7	2.1	2.1

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

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

Table 3. Liberia: Monetary Survey, 2009–13
(Millions of US dollar; unless otherwise indicated)

	2009	2010		2011		2012	2013
		5th Rev	Prel.	5th Rev	Proj.	Projections	
				(Central Bank Balance Sheet)			
Net foreign assets	-749.1	115.0	191.4	126.0	165.5	158.9	153.3
Of which: Fund credit	-891.2	-53.1	-44.4	-59.9	-60.3	-67.0	-66.9
CBL's gross foreign reserves 1/	372.5	379.1	467.0	401.2	465.0	496.0	519.9
Commercial banks' US$-denominated deposits at CBL	60.2	61.9	75.5	64.3	90.0	105.6	116.1
CBL's gross official foreign reserves 1/	312.2	317.1	391.4	336.8	425.1	452.0	462.0
Government US$-denominated deposits at CBL	45.5	47.1	103.7	52.3	70.0	65.6	65.6
CBL's net foreign exchange position 1/ 2/	266.5	270.1	287.5	284.6	305.0	324.8	338.2
CBL's net foreign exchange position excluding SDR holdings	65.1	64.6	77.0	56.7	72.2	86.2	100.2
Net domestic assets	823.0	-30.9	-93.8	-34.5	-61.0	-40.4	-20.7
Net claims on government	1,067.4	191.7	170.6	182.8	186.6	189.7	188.8
Claims on other public sector 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	1.8	1.9	4.9	2.1	4.7	5.5	2.8
Claims on commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net) 4/	-246.1	-224.5	-269.3	-219.3	-269.3	-269.3	-269.3
Base money	73.9	84.1	97.6	91.5	104.6	118.6	132.6
				(Monetary Survey)			
Net foreign assets	-664.3	183.9	330.5	194.8	304.5	292.5	282.2
Net domestic assets	986.7	178.2	100.1	182.5	191.6	285.4	355.4
Net domestic credit	1,241.3	386.7	380.1	369.7	471.6	565.5	635.5
Net claims on government	1,074.3	198.5	168.0	189.3	184.0	187.1	186.2
Claims on nongovernment	154.5	169.0	199.6	180.4	239.5	277.2	302.6
Claims on private sector	136.5	151.7	191.3	163.7	222.1	260.4	286.5
Claims on public enterprises	17.9	17.3	7.0	16.7	16.1	15.5	15.0
Claims on nonbank financial institutions	0.0	0.0	1.3	0.0	1.3	1.2	1.2
Other Items (Net)	-254.6	-208.5	-280.1	-187.2	-277.9	-280.1	-280.1
Monetary aggregates							
Monetary Base (M0)	67.1	69.7	79.9	76.4	85.9	97.1	108.8
Currency in circulation	59.0	61.9	70.0	68.1	75.4	84.8	95.2
Required reserves	8.1	7.8	9.9	8.4	10.5	12.3	13.5
Commercial bank deposits	263.4	315.3	360.5	352.6	420.6	493.2	542.4
Total demand deposits	201.3	224.7	260.1	253.5	297.0	348.3	383.1
L$-denominated deposits	12.3	12.8	16.4	13.2	19.2	22.5	24.7
US$-denominated deposits	188.9	211.9	243.7	240.3	277.9	325.8	199.3
Time, savings and other deposits	62.1	90.7	100.4	99.1	123.6	144.9	159.3
L$-denominated deposits	19.4	20.2	24.5	20.9	28.5	33.4	36.8
US$-denominated deposits	42.7	70.5	76.0	78.3	95.0	111.4	122.6
Broad money (M2)	322.4	376.6	430.6	416.1	496.0	578.0	637.6
L$ component	90.8	94.2	110.9	97.5	123.1	140.7	156.7
US$ component	231.7	282.4	319.6	318.5	372.9	437.2	480.9
Memorandum items:							
Broad money (annual change)	24.1	13.9	33.5	10.3	15.2	16.5	10.3
L$ component as percent of beginning period broad money	2.4	3.8	6.2	3.5	2.8	3.5	2.8
US$ component as percent of beginning period broad money	21.7	21.9	27.3	12.8	12.4	13.0	7.6
Reserve money (annual change)	2.1	10.8	32.0	8.8	7.2	13.4	11.8
Base money (annual change)	6.0	3.9	19.1	9.6	7.5	13.0	12.0
Credit to government (annual change)	-0.2	-81.5	-84.4	-4.6	9.5	1.7	-0.5
Credit to private sector (annual change)	31.5	11.1	40.1	7.9	16.1	17.3	10.0
Velocity (GDP-to-M2)	2.7	2.7	2.3	2.6	2.3	2.3	2.3

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

1/ SDR holdings are included from December 2009.

2/ Defined as gross official reserves less government foreign currency deposits at the central bank.

3/ Include public enterprises and the local government.

4/ Including valuation adjustment.

Table 4. Liberia: Medium-Term Outlook, 2010–16

	2010	2011		2012		2013	2014	2015	2016
	Prel.	5th Rev	Proj.	5th Rev	Proj.	Projections			
	(Annual percentage change)								
National income									
Real GDP	5.6	8.8	6.8	11.7	9.6	7.8	5.8	9.5	5.1
Agriculture & fisheries	3.8	4.3	3.5	4.1	3.0	4.1	4.9	5.2	4.7
Forestry	11.6	13.7	1.9	4.4	2.0	2.0	6.2	6.3	6.4
Mining & panning	8.6	163.0	164.7	156.1	142.6	38.9	8.6	38.0	4.6
Manufacturing	3.1	4.5	4.8	4.2	3.1	4.4	4.4	4.5	4.6
Services	5.9	4.6	5.8	7.0	5.9	6.4	6.2	5.8	5.6
Real GDP excluding mining sector 1/	5.3	5.9	4.6	4.9	4.0	4.8	5.8	5.5	5.2
Nominal non-mining per capita GDP (US dollar)	261.0	265.1	282.8	268.6	287.3	292.8	305.4	315.4	328.7
Prices									
GDP deflator	6.4	-0.8	9.2	4.6	7.0	2.1	-2.1	3.1	0.4
Consumer prices (annual average)	7.3	4.2	8.1	4.8	5.8	5.2	5.0	5.0	5.0
Consumer prices (end of period)	6.6	4.6	6.1	5.0	5.4	5.0	5.0	5.0	5.0
Population (millions)	3.8	4.0	3.9	4.1	4.0	4.1	4.2	4.3	4.4
	(Percent share)								
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture & fisheries	51.7	46.5	50.7	40.4	44.2	41.3	42.3	39.1	39.3
Forestry	11.6	13.5	10.9	12.3	9.6	9.0	9.3	8.9	9.2
Mining & panning	1.0	6.6	6.1	16.5	16.7	20.9	18.4	23.5	22.6
Manufacturing	5.3	5.2	5.1	4.7	4.5	4.3	4.4	4.2	4.2
Services	30.3	28.3	27.2	26.2	25.0	24.5	25.5	24.3	24.7
	(Percent of GDP, fiscal year)								
Central government operations									
Total revenue and grants	30.8	35.3	34.5	33.1	29.0	31.7	34.8	34.5	34.7
Total revenue	29.4	29.4	31.0	29.4	25.9	28.0	31.2	30.9	31.1
Grants	1.4	5.9	3.6	3.8	3.1	3.6	3.6	3.6	3.6
Total expenditure and net lending	30.2	35.8	33.2	36.6	30.1	35.2	39.4	39.9	40.2
Current expenditure	26.8	27.5	28.1	26.6	24.6	26.1	26.3	26.4	26.5
Capital expenditure	3.4	8.3	5.1	9.9	5.4	9.1	13.1	13.5	13.7
Overall fiscal balance, including grants	0.6	-0.5	1.3	-3.4	-1.1	-3.5	-4.6	-5.4	-5.4
Overall fiscal balance, excluding grants	-0.8	-6.4	-2.2	-7.2	-4.2	-7.1	-8.2	-9.0	-9.0
Public external debt	11.3	15.6	10.9	11.2	11.7	13.7	17.4	19.6	22.4
Central government domestic debt	31.4	29.7	27.3	27.4	24.3	22.3	21.7	20.7	19.8
	(Percent, unless otherwise indicated)								
M2/GDP	43.5	40.9	43.0	39.9	42.7	42.8	43.4	43.1	43.4
Private sector credit/GDP	19.3	15.5	19.2	15.5	19.2	19.2	19.2	19.2	19.2
Velocity (GDP-to-M2)	2.3	2.4	2.3	2.5	2.3	2.3	2.3	2.3	2.3
Money multiplier (M2/M0)	5.4	5.6	5.8	5.6	6.0	5.9	5.5	5.7	5.5
	(Percent of GDP, unless otherwise indicated)								
External sector									
Current account balance, including grants	-43.5	-59.2	-37.8	-64.9	-62.9	-64.6	-44.8	-7.0	-0.2
Current account balance, excluding grants	-142.4	-151.0	-121.6	-136.2	-127.8	-117.7	-90.2	-39.3	-28.6
Trade balance	-46.4	-70.4	-54.6	-62.0	-56.0	-40.3	-21.5	17.7	15.7
Exports	21.8	29.9	26.4	33.5	41.9	53.5	61.2	89.9	87.6
Imports	-68.1	-100.3	-80.9	-95.5	-97.9	-93.8	-82.7	-72.2	-71.9
Grants (donor transfers, net)	98.9	91.8	83.8	71.3	64.9	53.0	45.4	32.2	28.4
Gross official reserves (millions of US dollars)	391.4	329.8	425.1	339.9	452.0	462.0	483.8	488.2	488.3
Months of imports of goods and services 2/	3.4	2.0	2.7	2.0	2.1	2.1	2.3	2.5	2.4

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

1/ Chained weighted sectoral average growth rate.

2/ Excludes UNMIL service imports.

Table 5a. Liberia: Fiscal Operations of the Central Government, FY2009–13 1/
(Millions of US dollars)

	FY2009	FY2010	FY2011		FY2012		FY2013
			5th Rev	Proj.	5th Rev	Proj.	Proj.
Total revenue and grants	234.9	288.0	358.6	369.8	378.8	363.7	449.6
Revenue	211.3	275.0	298.5	331.7	335.9	324.7	398.3
Tax Revenue	190.0	207.8	205.1	254.3	242.7	252.8	294.4
Taxes on income, profits, and capital gains	65.8	70.2	60.6	96.3	76.5	81.6	99.2
Taxes on goods and services	33.7	39.2	48.5	51.2	50.9	61.2	64.6
Taxes on international trade	87.9	91.7	92.7	102.5	111.8	105.6	125.9
Other taxes	2.6	6.7	3.4	4.4	3.5	4.5	4.7
Non-tax	21.3	67.3	93.3	77.4	93.2	71.8	103.8
Grants	23.6	13.0	60.2	38.1	42.9	39.1	51.4
Expenditures and net lending	248.9	282.2	363.7	355.5	417.8	377.1	499.8
Current expenditures	215.1	250.5	278.9	300.6	304.3	308.9	371.0
Wages and salaries	91.4	113.9	140.3	140.3	152.0	163.0	180.0
Goods and services	75.3	76.7	82.2	104.3	89.0	81.2	111.7
Subsides and transfers	40.9	55.7	51.9	51.9	56.2	60.6	68.7
Interest	7.5	4.2	4.5	4.1	7.1	4.1	10.6
Capital expenditure	33.8	31.7	84.8	54.9	113.4	68.2	128.8
Foreign loan financed 2/	0.0	0.0	0.0	0.0	34.3	20.0	42.6
Domestically financed	33.8	31.7	84.8	54.9	79.1	48.2	86.2
Unallocated expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance 3/							
Including grants	-14.0	5.9	-5.0	14.2	-39.0	-13.4	-50.2
Excluding grants	-37.6	-7.1	-65.2	-23.8	-81.9	-52.4	-101.6
Identified financing	14.0	-5.9	5.0	-14.2	39.0	13.4	50.2
External financing (net)	-3.7	-3.3	-3.0	-3.9	28.4	14.5	36.7
Loans	0.0	0.0	0.0	0.0	34.3	20.0	42.6
Amortization (-)	-3.7	-3.3	-3.0	-3.9	-5.9	-5.5	-5.9
Domestic financing (net)	17.7	-2.6	8.1	-10.3	10.6	-1.1	13.5
Central Bank of Liberia	19.7	0.2	10.8	0.0	-0.3	2.5	0.0
Use of deposits	19.7	3.8	10.8	0.0	-0.3	2.5	0.0
Deposit money banks	-0.4	-0.9	-1.7	-0.8	10.6	-0.4	13.5
Treasury bill purchases (net)	0.0	0.0	0.0	0.0	12.0	0.0	14.2
Other (including repayment of arrears)	-1.6	-1.8	-1.0	-9.5	0.0	-3.3	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Iron ore-related revenues	0.0	29.9	42.5	38.6	32.1	36.8	53.1
Total public external debt 4/	3,112.7	1,744.1	101.3	113.7	138.4	143.1	180.2
Central government domestic debt 5/	296.4	293.8	302.0	292.2	313.1	304.0	316.3
o/w Foreign currency denominated	282.7	280.4	278.9	278.9	278.3	278.3	277.6
Basic balance 6/	19.8	37.6	79.7	69.2	74.4	54.9	78.6
Current balance 7/	-3.9	24.6	19.5	31.1	31.5	15.8	27.3
Primary balance, including grants	-6.5	10.1	-0.5	18.4	-31.9	-9.2	-39.6
Fiscal year nominal GDP	866.0	934.7	1,015.4	1,071.5	1,142.7	1,253.4	1,420.5

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

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

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

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

4/ Includes debt to IMF.

5/ Includes central government debt to the Central Bank of Liberia (which is excluded from domestic debt for purposes of debt sustainability analysis).

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

7/ Current revenue less current expenditure.

Table 5b. Liberia: Fiscal Operations of the Central Government, FY2009–13 1/
(Percent of GDP)

	FY2009	FY2010	FY2011		FY2012		FY2013
			5th Rev	Proj.	5th Rev	Proj.	Proj.
Total revenue and grants	27.1	30.8	35.3	34.5	33.1	29.0	31.7
Revenue	24.4	29.4	29.4	31.0	29.4	25.9	28.0
Tax Revenue	21.9	22.2	20.2	23.7	21.2	20.2	20.7
Taxes on income, profits, and capital gains	7.6	7.5	6.0	9.0	6.7	6.5	7.0
Taxes on goods and services	3.9	4.2	4.8	4.8	4.5	4.9	4.5
Taxes on international trade	10.1	9.8	9.1	9.6	9.8	8.4	8.9
Other taxes	0.3	0.7	0.3	0.4	0.3	0.4	0.3
Non-tax	2.5	7.2	9.2	7.2	8.2	5.7	7.3
Grants	2.7	1.4	5.9	3.6	3.8	3.1	3.6
Expenditures and net lending	28.7	30.2	35.8	33.2	36.6	30.1	35.2
Current expenditures	24.8	26.8	27.5	28.1	26.6	24.6	26.1
Wages and salaries	10.6	12.2	13.8	13.1	13.3	13.0	12.7
Goods and services	8.7	8.2	8.1	9.7	7.8	6.5	7.9
Subsides and transfers	4.7	6.0	5.1	4.8	4.9	4.8	4.8
Interest	0.9	0.4	0.4	0.4	0.6	0.3	0.7
Capital expenditure	3.9	3.4	8.3	5.1	9.9	5.4	9.1
Foreign loan financed 2/	0.0	0.0	0.0	0.0	3.0	1.6	3.0
Domestic and grant financed	3.9	3.4	8.3	5.1	6.9	3.8	6.1
Unallocated expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance 3/							
Including grants	-1.6	0.6	-0.5	1.3	-3.4	-1.1	-3.5
Excluding grants	-4.3	-0.8	-6.4	-2.2	-7.2	-4.2	-7.1
Identified financing	1.6	-0.6	0.5	-1.3	3.4	1.1	3.5
External financing (net)	-0.4	-0.4	-0.3	-0.4	2.5	1.2	2.6
Loans	0.0	0.0	0.0	0.0	3.0	1.6	3.0
Amortization (-)	-0.4	-0.4	-0.3	-0.4	-0.5	-0.4	-0.4
Domestic financing (net)	2.0	-0.3	0.8	-1.0	0.9	-0.1	0.9
Central Bank of Liberia	2.3	0.0	1.1	0.0	0.0	0.2	0.0
Use of deposits	2.3	0.4	1.1	0.0	0.0	0.2	0.0
Deposit money banks	0.0	-0.1	-0.2	-0.1	0.9	0.0	0.9
Treasury bill purchases (net)	0.0	0.0	0.0	0.0	1.1	0.0	1.0
Other (including repayment of arrears)	-0.2	-0.2	-0.1	-0.9	0.0	-0.3	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Iron ore-related revenues	0.0	3.2	4.2	3.6	2.8	2.9	3.7
Total public external debt 4/	359.4	186.6	10.0	10.6	12.1	11.4	12.7
Central government domestic debt 5/	34.2	31.4	29.7	27.3	27.4	24.3	22.3
o/w Foreign currency denominated	32.6	30.0	27.5	26.0	24.4	22.2	19.5
Basic balance 6/	2.3	4.0	7.9	6.5	6.5	4.4	5.5
Current balance 7/	-0.4	2.6	1.9	2.9	2.8	1.3	1.9
Primary balance, including grants	-0.7	1.1	0.0	1.7	-2.8	-0.7	-2.8
Fiscal year nominal GDP (millions of US dollars)	866.0	934.7	1,015.4	1,071.5	1,142.7	1,253.4	1,420.5

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

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

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

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

4/ Includes debt to IMF.

5/ Includes central government debt to the Central Bank of Liberia (which is excluded from domestic debt for purposes of debt sustainability analysis).

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

7/ Current revenue less current expenditure.

Table 6. Liberia: Fund Credit Position and Projected Payments to the Fund, 2011–22
(Millions of SDRs, unless otherwise indicated)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Prospective drawings												
ECF	8.80	4.40	-	-	-	-	-	-	-	-	-	-
Projected debt service to the Fund [1/]	-	0.10	1.10	4.20	6.78	9.98	12.75	15.66	13.05	12.45	11.22	10.44
Repayments and repurchases	-	-	-	2.10	3.69	5.90	7.68	9.62	6.02	4.44	2.22	0.44
ECF-current	-	0.00	0.00	2.10	3.69	5.46	5.46	6.96	3.36	1.78	0.00	0.00
ECF-projected	-	0.00	0.00	0.00	0.00	0.44	2.22	2.66	2.66	2.66	2.22	0.44
Interests	-	0.10	1.10	2.10	3.09	4.08	5.07	6.04	7.03	8.01	9.00	10.00
ECF-current	-	0.07	0.07	0.07	0.06	0.05	0.04	0.02	0.01	0.00	0.00	0.00
ECF-projected	-	0.03	0.03	0.03	0.03	0.03	0.03	0.02	0.02	0.01	0.00	0.00
In percent of												
GDP	0.0	0.0	0.1	0.4	0.6	0.9	1.0	1.2	0.9	0.8	0.7	0.6
Gross Official Reserves	0.0	0.0	0.4	1.6	2.5	3.7	4.8	5.3	4.3	4.1	3.6	3.3
Exports of goods and services	0.0	0.0	0.2	0.5	0.6	0.8	1.0	1.2	1.0	0.9	0.8	0.7
Fiscal revenues (excluding grants)	0.0	0.0	0.4	1.2	1.8	2.5	3.1	3.6	2.8	2.6	2.2	1.9
Fund credit outstanding	37.6	42.0	42.0	39.9	36.2	30.3	22.6	13.0	7.0	2.6	0.3	0
In percent of												
GDP	5.2	4.9	4.5	4.1	3.3	2.6	1.8	1.0	0.5	0.2	0.0	0.0
Gross Official Reserves	16.0	17.2	16.5	15.3	13.6	11.2	8.5	4.4	2.3	0.8	0.1	0.0
Exports of goods and services	8.6	7.4	6.0	5.1	3.1	2.6	1.9	1.0	0.5	0.2	0.0	0.0
Fiscal revenues (excluding grants)	16.3	16.5	13.7	11.6	9.7	7.7	5.5	3.0	1.5	0.5	0.1	0.0
Quota (under the 12th General Review)	29.1	32.5	32.5	30.9	28.0	23.5	17.5	10.1	5.4	2.0	0.3	-0.1

Sources: Finance Department and staff estimates.

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

Table 7. Liberia: Schedule of Disbursements Under the ECF/EFF Arrangements, 2008–12

Amount	Actual Disbursement Date/ Date of Availability	Conditions for Disbursement[1]
Total : SDR 550.03 million ECF: SDR 207.26 million EFF: SDR 342.77 million	March 14, 2008	Executive Board approval of the three-year ECF/EFF arrangements
ECF: SDR 7.00 million	December 29, 2008	Executive Board approval of the first review under the three-year ECF arrangements
ECF: SDR 7.00 million	May 14, 2009	Executive Board approval of the second review under the three-year ECF arrangement
ECF: SDR 4.44 million	December 21, 2009	Executive Board approval of the third review under the three-year ECF arrangement
ECF: SDR 4.44 million	July 2, 2010	Executive Board approval of the fourth review under the three-year ECF arrangement
ECF: SDR 4.44 million	December 22, 2010	Executive Board approval of the fifth review under the three-year ECF arrangement
ECF: SDR 4.44 million	June 22, 2011	Observance of the performance criteria for December 31, 2010; completion of the sixth review of the arrangement
ECF: SDR 4.44 million	September 15, 2011	Observance of the performance criteria for June 30, 2011; completion of the seventh review of the arrangement
ECF: SDR 4.44 million	March 15, 2012	Observance of the performance criteria for December 31, 2011, completion of the eighth review of the arrangement

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

Table 8. Liberia: External Financing Requirements and Sources, 2010–15
(US$ millions)

	Est.	Projections				
	2010	2011	2012	2013	2014	2015
I. Total financing requirement	-4,462	-1,432	-1,753	-1,767	-1,421	-698
Current account (excluding donor grants)	-1,408	-1,404	-1,730	-1,751	-1,392	-684
Debt amortization	-1,536	-4	-6	-6	-8	-10
NFA	-78	-24	-17	-10	-22	-4
Of which: gross reserves	-79	16	-22	-13	-10	-8
Reduction in arrears	-1,439	0	0	0	0	0
II. Total available financing	2,901	1,418	1,745	1,767	1,421	698
Donor transfers	978	967	878	789	700	562
Debt forgiveness	1,439	0	0	0	0	0
Foreign direct investment	398	431	821	903	670	210
Official medium- and long-term flows	0	6	28	52	71	83
Private Financing	86	14	18	23	-21	-156
III. Exceptional Financing	1,561	14	7	0	0	0
IMF	14	14	7	0	0	0
Debt Forgiveness	1,439	0	0	0	0	0
Debt Rescheduling	108	0	0	0	0	0
IV. Financing Gap	0	0	0	0	0	0

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

APPENDIX I. LIBERIA: SUPPLEMENTARY LETTER OF INTENT

Monrovia, June 7, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Lipsky:

The attached Supplementary Memorandum of Economic and Financial Policies details the implementation of Liberia's economic program through early 2011. In light of the performance registered in implementing the economic program and our future policy intentions we request that the sixth review under the ECF arrangement be completed and the seventh disbursement in the amount of SDR 4.44 million be approved. We request that the Extended Credit Facility (ECF) be extended to March 31, 2012 to complete and consolidate the ECF-supported economic and structural reform program through end-December 2011, and that performance criteria be set for June 30, 2011 and December 31, 2011. With a continuing balance of payments need we also request additional access in the amount of SDR 8.88 million to be equally disbursed after the completion of two additional program reviews scheduled for September 15, 2011 and March 15, 2012.

We believe that our policies are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. We will consult closely with the IMF staff on the adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. We will provide the Fund with all information necessary to monitor implementation of the program supported by the ECF in a timely manner. We consent to the publication on the IMF website of this letter, the accompanying memorandum of policies, and the related staff report for the Sixth Review under the ECF.

Sincerely yours,

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

Attachment I. Liberia: Supplementary Memorandum of Economic and Financial Policies, 2011

I. Recent Macroeconomic Developments and Performance under the Program

1. **Estimates for 2010 suggest that GDP growth continued to pick up, although less rapidly than we had initially hoped**. Food production and services are supporting growth. Rubber production continued to decline due to the aging tree stock. Also, the expected restart of timber exports was delayed by bottlenecks in the transport infrastructure. The external environment was initially somewhat benign with rising rubber export prices, though imported food and fuel price increases were increasingly apparent by the end of the year.

2. **With inflation in single digits and the exchange rate broadly stable, financial markets expanded substantially**. The banking service branch network expanded significantly in 2010 and the banking sector balance sheet expanded by nearly one third. However, credit expansion was accompanied by an increase in the share of nonperforming loans.

3. **Fiscal developments in FY2011 were characterized by strong tax revenue performance, though execution of capital spending was, at least initially, slow**.

- Tax revenues are expected to exceed budgeted levels on account of buoyant income tax, withholding tax, and customs receipts.
- Projected budgetary grants will likely fall short of budget estimates on account of temporary delays.
- Current spending is on track, but capital expenditure is, so far, well short of budget this year, due to capacity constraints in both the public and private sectors. We have taken steps to address this situation (see below).
- Against this background, a supplementary budget of US$24 million was approved by the legislature in April 2011. The supplementary expenditure is allocated to capital spending, urgent current spending, and domestic arrears clearance in approximately equal proportions. We also allocated US$15 million from a one-time petroleum payment to deferred expenditure, as provided for in the FY2011 budget.

4. **Performance under the ECF-supported program was good**. All quantitative performance criteria through end-December 2010 were comfortably met. However, implementation of the remaining three structural benchmarks was slower than expected:

- Publication of national accounts data has been delayed, though we expect to publish provisional or experimental data after the completion of consultations with data users.

- The ASYCUDA system in Customs has been extended to the Monrovia oil terminal. However, extension to the international airport has been delayed due to funding difficulties.

- Regular financial reporting by state owned enterprises to the Ministry of Finance, as envisaged in the Public Financial Management Act, has been slow to start and this will require corrective actions in the months ahead (see below).

II. Economic and Financial Policies

A. Program Objectives

5. Our principal economic objectives for 2011 are to maintain broad macroeconomic and financial stability, promote the broad-based growth of employment, and to deliver improved public services as detailed in the Liberian Poverty Reduction Strategy (PRS).

6. **PRS implementation advanced**. However, capacity constraints substantially slowed the rate of implementation of deliverables across the four main pillars during the third PRS year (April 2010–March 2011). A stakeholder consultation in late 2010 agreed to extend the PRS to end-2011 in order to provide more time for the completion of outstanding deliverables. Preparations have begun for a successor to the PRS, Liberia Economic Growth Strategy, beginning 2012 which will support implementation of a long-term strategy aimed at achieving middle-income status by 2030. We are also strengthening justice and security through the formation of five regional hubs that will decentralize these functions with support from the UN Peacebuilding Commission over the period 2011–15.

B. Macroeconomic Outlook and Risks

7. **Economic prospects for 2011 and over the medium term remain favorable provided that external risks are contained**. Iron ore exports are expected to start in the third quarter of 2011 which will support more rapid growth of income. Risks to growth are centered on a continued rise in international food and fuel prices which would raise inflation and squeeze private consumption. Moreover the influx of Ivorian refugees is placing pressure on food supplies in border areas, and raising security costs.

8. **The balance of trade is weakening mainly on account of higher food and fuel import prices, that are only partially offset by higher rubber export prices**. In order to maintain an adequate level of foreign exchange reserves in face of elevated import levels we request an extension of the ECF arrangement with additional access of SDR 8.8 million.

C. Fiscal Policies

9. **The FY2012 budget submitted to the Legislature May 5, 2011 balances macroeconomic stability and development concerns**. Core revenue estimates are based on the amended Liberia Revenue Code—submitted to the Legislature in May 2011— incorporating income tax reductions and sales tax increases on selected

services, non-tax payments under ratified concession agreements, and donor support commitments. In addition, the budget envisages a significant amount of contingent revenues and grants on account of not yet ratified concessions in the iron ore and palm oil sectors, withholding taxes from the transfer of offshore oil exploration blocks, and receipts from monetizing a bilateral commodity grant that is expected in early 2012.

10. **Total expenditure in FY2012 will depend on the extent to which contingent revenues and grants are realized**. Core spending covers the minimum spending requirements of ministries and agencies, full requirements for education and health sectors, priority investment projects in infrastructure, and debt servicing. Contingent spending allocations and execution procedures are defined in an annex to the budget and apply to all ministries and agencies except those in the education and health sectors. A quarterly review of contingent budget performance will be undertaken. In view of the considerable upside on revenues and grants, the budget does not envisage a need for additional financing, except in respect of concessional financing from the World Bank for budget support and projects (US$20 million, 1.6 percent of GDP). The PRS objective of social and other priority spending proved difficult to monitor precisely, accordingly we have narrowed the objective to ensure that US$88.9 million or 23.9 percent of total spending is devoted to education and health as an indicative program target (see Technical Memorandum of Understanding).

11. **The FY2012 capital spending program is focused on a few strategic projects in ports, energy and transport**. Implementation delays experienced in FY2011 resulted from: capacity constraints in line ministries for project design; procurement delays for multiple relatively small projects; and late passage of the budget. Moreover, limited equipment and experience of resident contractors slowed execution, particularly in the infrastructure sector. In FY2012, we will concentrate funds on fewer and larger projects to accelerate implementation. The investment program will continue to emphasize infrastructure, leveraging private and donor financing where possible.

12. **A continued increase of food and fuel prices would represent the principal fiscal risk in FY2012**. Heavy reliance on imports and high incidence of poverty makes the Liberian economy vulnerable to rising commodity prices with adverse consequences for poverty alleviation and social stability. In addition, intensified refugee inflows from Côte d'Ivoire have already lowered food reserves in affected areas. We will mitigate the impact on the most vulnerable sector of the population by expanding—together with donor support—our already existing system of targeted transfer measures. These comprise "conditional cash/voucher" programs in urban areas, "cash- and food-for-work" programs in rural areas, and school feeding programs. Should staple food prices, particularly rice, rise significantly higher than expected, we would also consider providing, temporary, well-targeted, consumption subsidies. In this event, the FY2012 budget may need to be revised. To mitigate the effect of rising fuel prices, we are considering subsidies for public transportation.

13. **In view of potential fiscal risks, we will strengthen oversight of state-owned enterprises' financial operations**. To this end, we will increase the resources of the PFM Reform Coordination Unit to facilitate production of a first quarterly report detailing state enterprise financial activities and plans, and will set this as a structural benchmark for the Seventh Review (rephased from Sixth Review).

D. Monetary and Financial Policies

14. **The principal objective of monetary policy remains to support price stability**. Due to a high dependence upon food and fuel imports, inflation is likely to increase during 2011, but continued discipline in monetary and fiscal policy can help prevent a second round inflationary impact. The CBL will continue to use the foreign exchange auction to help maintain broad stability in the exchange rate. The introduction of Government of Liberia treasury bills, which should commence soon, will be an additional tool for managing liquidity.

15. **We intend to maintain foreign exchange reserve holdings at an adequate level over the medium term. The demand for Liberian dollars could increase by the equivalent of US$10 million during 2011, which** would be reflected in CBL net purchases in the foreign exchange auction. However, the actual accumulation of reserves would be determined by market conditions which may be more or less favorable. To preserve our flexibility to conduct monetary policy, including for foreign exchange market intervention and for the potential impact of local currency treasury bill sales, our end-2011 reserve target (including holdings of SDRs) will increase by US$14.1 million from the end-December 2010 target of US$274.5 million.

16. **The banking system remains liquid and well capitalized, and credit growth is brisk—however the CBL is concerned about the increase of nonperforming loans**. In response, the CBL has intensified the cycle of on-site targeted credit examination complemented by more robust off-site surveillance, consistent with the risk-based supervision methodology. The CBL is also assisting commercial banks in strengthening their internal risk management guidelines. In order to improve the overall credit environment with respect to the enforcement of financial contracts, the CBL spearheaded efforts to develop a new Commercial Code and a law to establish a new commercial court—both approved by the Legislature in 2010.

17. **Progress towards adopting a risk-based supervision framework is on track**. The CBL completed a walk-through evaluation of the risk management systems of individual commercial banks in 2010. Steps will be taken in strengthening the risk-based supervision framework. The focus for 2011 includes on-site examination training for the CBL staff and the pilot examinations of each commercial bank. The CBL has required commercial banks to adopt international financial reporting standards (IFRS) by end-2012, and has begun work to build commercial banks' capacity in this regard. Technical assistance has been requested from the IMF to help ensure a smooth transition to IFRS.

18. **The CBL continues to press ahead with new initiatives and payments system modernization to expand financial intermediation, including to the unbanked**.

- In December 2010, the CBL launched a credit stimulus initiative with a total placement of US$5 million with several commercial banks in support of medium-term credit needs of Liberian-owned small to medium-sized businesses. The CBL is also examining the modalities of increasing finance, on affordable terms, to microfinance institutions.

- A project to modernize the payments system began in December 2010 with the aim of extending the West African Monetary Zone payments system to Liberia. We expect to formulate a legal framework for the modernized nationwide payments system on a timely basis so as not to affect the implementation of the project.

- The CBL plans to work with commercial banks to introduce mobile banking in the near future. The development of an appropriate regulatory and supervisory framework for this undertaking is underway.

19. **Efforts aimed at developing a capital market are being intensified by the CBL**. The commencement of the treasury bill market will be a major first step toward the development of financial markets. The CBL will also consider the introduction of Central Bank Notes if conditions warrant. To support an orderly process the CBL will develop an appropriate road map and interim regulations pertaining to capital markets (new structural benchmark for 8th ECF Review).

20. **The CBL has strengthened its internal management and financial controls**. Based on a satisfactory track record in implementing the recommendations of the 2008 Safeguards Assessment, the internal auditor of the CBL has conducted a Monetary Data Reporting Package (MDRP) audit since the second half of 2010. The MDRP audit report for the second half of 2010, completed in February 2011, highlighted minor discrepancies between CBL accounting records and data reported to the Fund. Compliance with program targets was not affected and the relevant corrections have been made.

21. **The CBL has operated a balanced operational budget without accumulating arrears for several years**. It is requested that the continuous performance criterion for CBL arrears be discontinued forthwith.

E. Public Financial Management, Revenue Administration and Governance

22. **We continue our systematic improvement in Public financial management (PFM)**. Key actions carried out recently include:

- A comprehensive PFM Reforms Strategy and Medium-Term Action Plan will be finalized in May 2011. This program has been designed to ensure that reforms proceed incrementally with appropriate centralized control and coordination, with a strong focus on capacity building.

- Strategic plans for comprehensive reform of tax administration and customs have been developed.

- Extensive training of civil servants is being conducted in the use of the International Public Sector Accounting System (IPSAS), the new IT systems, and the public procurement system. Extensive training is also being provided in all ministries and agencies to help them interpret and comply with the PFM law.

- The gap in internal audit capacity is being addressed through an internal audit strategy that builds capacity in eight critical ministries.

- In other areas, the Civil Service Agency (CSA) has largely completed a biometric employee verification and identification system,

23. **We have taken a number of measures to accelerate the procurement process**. We have significantly reduced the time required for purely administrative steps by prioritizing project expenditure. In preparation for the FY2012 budget, ministries and agencies were required to submit draft bid documents along with their project proposals and were encouraged to begin the bidding cycle prior to budget approval. Technical assistance is urgently needed to help line ministries fulfill the procurement requirements in a timely fashion.

24. **We are deepening reforms of public financial management and revenue administration**. Actions plans have been developed and implementation structures put in place that we expect will permit rapid advances in the year head.

- Our key IT programs currently under development will become operational. The pilot phase of IFMIS will be launched in the Ministry of Finance, CSA, GAC and Central Bank of Liberia (new benchmark Seventh Review of the ECF). ASYCUDA will be extended to the international airport (revised benchmark for Seventh Review). The ITAS system in tax administration will also become operational in phases starting in April 2011 in the Large Taxpayer Unit.

- In light of the large share of revenue expected to be generated from natural resources in the future, starting with the commencement of iron ore shipments in 2011, we intend to upgrade our capacity to monitor the fiscal aspects and obligations of the larger projects. To this end, we intend to establish a small mining concessions tax assessment team in the Large Taxpayer unit (new benchmark Eighth Review). We will seek technical assistance to build the necessary skill. In a related measure, in anticipation of the discovery of offshore petroleum reserves, we are reviewing the National Oil Company of Liberia (NOCAL) and Petroleum acts to remove fiscal provisions and, in line with best international practice, to separate the regulatory and commercial functions of NOCAL. We anticipate draft amendments will be prepared by end-2011.

- We will also strengthen our audit capacity to reduce fraud and waste. The General Auditing Commission will assist key ministries (including Health, Education, and Public Works) through assessing their compliance with basic financial controls, agreeing on remedial actions, and monitoring implementation of these actions during the remainder of 2011.

- External audits of the consolidated government accounts for FY2009 and FY2010 will be submitted to the legislature by mid-2011.

- We will appoint a Central Internal Audit Governance Board and establish audit committees in eight key ministries.

- We will finalize the costing of our strategy of reform in the Bureau of Internal Revenue and Customs and develop detailed action plans for the 2011/12 fiscal year.

F. Debt Management and External Policies

25. **Substantial progress has been made on completing external debt rescheduling and debt reduction**. We finalized all but one bilateral agreement with Paris Club creditors before the March 2011 deadline. The final bilateral is close to completion. Regarding non-Paris Club official debt: China has provided full cancelation of the eligible debt; an agreement has been reached with Kuwait on terms broadly comparable to HIPC debt reduction. Negotiations with other non-Paris Club creditors—ECOWAS, the Saudi Fund, BADEA and OFID—have advanced. However, little progress has been achieved with Taiwan, Province of China (almost half of the total non Paris Club official debt).

26. **Against this background the external debt outlook has improved and we remain committed to maintaining a sustainable level of debt**. Forthcoming publication and dissemination of guidelines for Government guarantees will further contribute to strengthening the overall debt management framework.

G. Statistics

27. **We are committed to improving the quality of macroeconomic statistics, in particular national accounts**. A draft 2008 Supply and Use Table (SUT) is likely to result in a significant upward revision of estimates of GDP. The data are under review to ensure as reliable a data set as possible in the current circumstances, and final data are unlikely to be released prior to the completion of the 2012 household expenditure survey.

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

	Mar. 10			Jun. 10			Sep. 10			Dec. 10		
	Prog.	Adj. target	Actual	Prog.	Adj. target	Actual	Prog.	Adj. target	Actual	Prog.	Adj. target	Actual
Performance criteria and indicative targets 1/												
Fiscal 2/												
Floor on total revenue collection of the central government 3/	181.5	185.3	204.9	277.6	260.0	275.0	48.2	48.2	71.6	103.1	103.1	167.9
Floor on social and other priority spending (percent of total revenue and grants collected, indicative target) 4/	60.0	60.0	60.1	60.0	60.0	70.7	…	…	…	65.0	65.0	83.6
Ceiling on new noncash tax/duty payment to the central government (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables of the central government (continuous basis) 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on non-concessional external borrowing of the public sector (continuous basis) 6/	…	…	…	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on gross borrowing by the public sector in foreign currency 7/	…	…	…	…	…	…	46.0	46.0	0.0	46.0	46.0	0.0
Ceiling on new domestic borrowing of the central government 8/	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.5	0.0	5.0	5.0	0.0
CBL												
Ceiling on payments arrears (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on CBL's net foreign exchange position 8/ 9/	251.5	251.5	268.5	261.6	254.6	270.7	264.6	264.6	280.4	274.5	274.5	287.5
Ceiling on CBL's gross credit to central government 8/ 10/	…	…	…	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on net domestic assets of the CBL (indicative target) 8/ 11/	…	…	…	…	…	…	-37.7	-37.7	-67.2	-28.1	-28.1	-98.8
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects 2/	20.0	…	23.8	47.4	…	29.9	0.0	…	10.0	0.0	…	10.6
Memorandum item: Programmed receipt of external budget support and ratified concession payments 2/	…	…	…	…	…	…	11.0	…	10.0	27.8	…	34.4

1/ Performance criteria at end-December 2010 except where marked and indicative targets at end-September 2010.
2/ Cumulative within each fiscal year (July 1-June 30).
3/ Beginning December 2009, an adjuster comes into force stipulating that the floor on total revenue collection will be adjusted downward by any shortfall in receipts of one-time iron ore signing bonuses and contributions into Social Development Funds from new iron ore projects from their programmed level.
4/ Indicative target. Social and other priority spending is defined as the fiscal expenditure on the four basic pillars of PRS spending defined in the Liberian Poverty Reduction Strategy paper, 2008.
5/ Excluding the arrears arising from the current debt outstanding.
6/ The public sector comprises the central government, the CBL, public enterprises, and other official sector entities.
7/ This is set at the US dollar term on the basis of net present value of debt to 2010 GDP.
8/ Bridge financing from the CBL is available under the program for shortfalls in programmed receipt of external budget support and ratified concession signature payments up to a maximum of US$20 million. In this event, floors will adjust downwards and ceilings adjust upwards by the extent this financing is utilized, up to a maximum of US$20 million.
9/ From December 2009, CBL's net foreign exchange position includes SDR holdings and is based on the scheduled disbursement on the ECF program. In the event of delays to ECF disbursements, the floor would adjust down by the cumulated amount of financing relative to the programmed schedule of disbursements.
10/ Cumulative change from June 30, 2010.
11/ Indicative target. The net domestic assets of the CBL are defined as base money minus the net foreign assets of the CBL converted into the U.S. dollars at program exchange rates.

Table 1b. Liberia: Quantitative Performance Criteria and Indicative Targets, 2011–12
(Millions of US dollars, unless otherwise indicated)

	Mar. 11	Jun. 11	Sep. 11	Dec. 11	Mar. 12	Jun. 12
	Program	Program	Program	Program	Projection	Projection
Performance criteria and indicative targets [1/]						
Fiscal [2/]						
Floor on total revenue collection of the central government [3/]	210.6	327.1	61.6	170.6	239.6	317.7
Floor on social and other priority spending (percent of total revenue and grants collected, indicative target) [4/]	…	65.0	…	…	…	…
Floor on primary education and primary healthcare spending (percent of total budgeted expenditure, excluding contingencies, indicative target)	…	…	…	21.9	…	21.9
Ceiling on new noncash tax/duty payment to the central government (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new domestic arrears/payables of the central government (continuous basis) [5/]	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on new external arrears of the central government (continuous basis)	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on non-concessional external borrowing of the public sector (continuous basis) [6/]	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on gross borrowing by the public sector in foreign currency [7/]	46.0	46.0	46.0	46.0	46.0	46.0
Ceiling on new domestic borrowing of the central government [8/]	7.5	10.0	12.5	12.5	12.5	12.5
CBL						
Floor on CBL’s net foreign exchange position [8/, 9/]	267.0	276.5	279.0	288.6	292.3	303.1
Ceiling on CBL's gross credit to central government [8/, 10/]	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on net domestic assets of the CBL (indicative target) [8/, 11/]	-82.9	-77.6	-68.7	-73.3	-53.8	-47.6
Memorandum item: Programmed receipt of one-time signing bonuses and Social Development Fund contributions from new iron ore projects [2/]	32.4	42.5	0.0	22.7	22.7	22.7
Memorandum item: Programmed receipt of external budget support and ratified concession payments [2/]	54.4	92.6	0.0	51.1	51.1	51.1

1/ Performance criteria at end-June 2011 and end-December 2011 except where marked. All others indicative targets.

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

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

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

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

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

7/ This is set at the US dollar term on the basis of net present value of debt to 2011–12 GDP.

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

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

10/ Cumulative change from June 30, 2010.

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

Table 2. Liberia: Structural Benchmarks September 2010–December 2011

Measure	**Target Date**	**Justification**	**Status**
Publication of validated national accounts data for 2008 by the Statistical agency LISGIS	February 2011	Provision of critical data for economic surveillance and macroeconomic policy.	Not met. Draft report circulated to stakeholders in February 2011.
Extend ASYCUDA system to the Monrovia oil terminal and international airport	End- December 2010 Re-phased to Seventh Review	Trade facilitation and tax administration enhancement.	Not met. ASYCUDA extended to the oil terminal, but extension to airport was delayed due to lack of finance.
Regular quarterly reporting of state owned enterprise (SoE) financial operations to Ministry of Finance.	End-January 2011. Re-phased to Seventh Review	Essential for program monitoring of public sector borrowing.	Not met. Poor compliance by SoEs. Corrective measures identified by Ministry of Finance.
Launch of pilot phase of the Integrated Financial Management Information System (IFMIS) linking Ministry of Finance, Civil Service Agency, Central Bank and GAC.	Seventh Review	Critical to improving reporting and monitoring of budget implementation.	
Create a small mining tax assessment team in the Large Taxpayer Unit with technical assistance if needed.	Eighth Review	Taxation of concessions is a major element in the projected revenue increase over the medium term.	
Development by the Central Bank of Liberia of a road map and interim regulations for capital market development.	Eighth Review	Undeveloped capital markets are an important impediment to private sector development.	

ATTACHMENT II. LIBERIA: TECHNICAL MEMORANDUM OF UNDERSTANDING

This memorandum sets out the understandings between the Liberian authorities and the International Monetary Fund (IMF) regarding the definitions of the quantitative performance criteria and structural benchmarks for the Extended Credit Facility program, as well as the reporting requirements.

I. DEFINITIONS

1. **For the purposes of the program, the Government is defined as the central Government of Liberia (GoL)**. This definition excludes legally autonomous state-owned enterprises whose budgets are not included in the central government budget. The operations of the central government will be presented in U.S. dollars with all revenues and expenditures that are denominated in Liberian dollars converted at the end of period exchange rate. **The public sector** comprises the central government, the Central Bank of Liberia, public enterprises (enterprises and agencies in which the government holds a controlling stake—typically owns more than 50 percent of the shares, but which are not consolidated in the budget), and other official sector entities.

2. **Total revenue collection** includes all tax and nontax receipts transferred into the U.S. dollar GoL accounts at the CBL, including income and transfers from state-owned enterprises and public institutions (excluding external loans and grants). The GoL accounts at the CBL include the GoL General Account No. 2, the GoL Special Rice Fund, and the Liberian dollar account at the CBL comprising the GoL General Account. Any new accounts opened by the GoL at the CBL or at any other local financial agency shall be reported to the IMF as well. For the purposes of the program, the revenues of the GoL are measured on the basis of cash deposits in the four accounts specified above converted to U.S. dollars using the end of period exchange rate.

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

Program Schedule for Cumulative Signing Bonuses and Social Development Fund Payments from New Iron Ore Projects

(In millions of U.S. dollars, cumulative from start of fiscal year)

	Program path
December 2010	0.0
March 2011	37.4
June 2011	42.5
September 2011	0.0
December 2011	22.7

4. **For FY2012, education and health spending** is defined as total spending from the FY2012 budget of the units listed below (payment vouchers approved by the Ministry of Finance). It is evaluated as a share of total budgeted expenditure, where total budget expenditure excludes contingency expenditure, off budget expenditure, and donor-financed items.

Education:
Ministry of Education
University of Liberia
Monrovia Consolidated School System (MCSS)
Booker Washington Institution (BWI)
Forestry Training Institution (FTI)
Cuttington University (CUC)
National Commission on Higher Education (NCHE)
W. V. S. Tubman Technical College (WVSTC)
West African Examiniation Council (WAEC)
Health:
Ministry of Health and Welfare
JFK Medical Center (JFKMC)
Phebe Hospital
LIBR

5. **The overall fiscal balance of the central government through end-June 2010** is defined as—the difference between (a) revenue including grants and earmarked external loans; and (b) government current expenditure, plus capital expenditure plus payment of arrears, amortization, and payments to the domestic trust fund. From July 1, 2010 the overall fiscal balance of the central government is defined as—the difference between (a) total revenue including grants; and (b) total expenditure, excluding payment of arrears, amortization, and payments to the domestic trust fund on a commitment basis (payment vouchers approved by the Ministry of Finance).

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

7. **Gross borrowing by the public sector in foreign currency** is defined as cumulated new foreign currency claims by residents and non-residents from July 1, 2010 on the public sector excluding borrowing for reserve management purposes by the CBL.

8. **New domestic borrowing of the central government** is defined as new claims on the central government since the start of the program in domestic and foreign currency. It will be measured by the change in the stock of all outstanding claims on the central government (loans, advances, and any government debt instruments, such as long-term government securities) by the banking system plus the net issuance of debt instruments by

the GoL to the nonbank sector. For the purposes of measurement, all claims in Liberian dollars will be converted to U.S. dollars at the end of period exchange rate.

9. **New domestic arrears/payables of the central government** are calculated as the difference between government payment commitments and the actual payments made on such commitments, providing for a processing period of no more than 15 days from the date of commitment. Actual payments are defined as having taken place on the date of issuance of the checks by the Ministry of Finance. Government payment commitments include all expenditure for which commitment vouchers have been approved by the Director of the Bureau of General Accounting (BGA), and expenditure that are now automatically approved, namely, wages and salaries, pensions, debt payments to the CBL and commercial banks, CBL bank charges, and transfers of Economic Community of West African States (ECOWAS) levies into the ECOWAS account.

10. **The government undertakes not to incur payments arrears on external debt that it owes or guarantees**, with the exception of external payments arrears arising from government debt that is being renegotiated with creditors, including Paris Club creditors. Arrears on external debt are defined as any unpaid obligation on the contractual due date. In cases where a creditor has granted a grace period after the contractual due date, arrears are incurred following the expiration of the grace period.

11. **Contracting or guaranteeing of new external debt by the public sector applies to borrowing with non-residents with original maturities of one year or more**. For the purposes of the program, external debt applies not only to the meaning set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt" (see Decision No. (79/140) adopted August 3, 1979, as amended August 31, 2009, effective December 1, 2009 attached in Annex I), but also to commitments contracted or guaranteed for which value has not been received.

12. **The concessional nature of debt** will be determined on the basis of the commercial interest reference rates published by the Organization for Economic Cooperation and Development (OECD). A debt is defined as concessional if, on the date of signature, the ratio between the present value of debt computed on the basis of reference interest rates and the face value of the debt is less than 65 percent (equivalent to a grant element of at least 35 percent).

13. **The ceiling for contracting and guaranteeing nonconcessional external debt by the public sector will be set at zero continuously throughout the program period except as agreed with Fund staff**. The ceiling for contracting and guaranteeing nonconcessional debt excludes short-term import-related credits, rescheduling arrangements, borrowing from the Fund.

14. **CBL gross credit to central government** is defined as the sum of claims on central government, including loans, advances, accounts receivable, and any government debt

instrument as defined in the monetary survey template excluding CBL purchases of treasury bills in the secondary market and non-competitive purchases in the primary market. The gross credit to government is expressed in U.S. dollars. Claims denominated in Liberian dollars are valued at a fixed rate of the Liberian dollar against the U.S. dollar denominated claims, 72.00 as of September 30, 2009. Other currencies are valued at cross-rates against the U.S. dollar as of September 30, 2009.

15. **The net foreign exchange position of the CBL** is defined as the difference between (a) the CBL's gross foreign reserves including SDR holdings, as currently defined in the monthly monetary survey and (b) the sum of its gross foreign liquid liabilities and liquid liabilities denominated in U.S. dollars, as currently defined in the monthly monetary survey. The net foreign exchange position floor at end-June 2011 and end-December 2011 is US$25 million below the projected net foreign exchange position. In the event of delays to ECF disbursement, the floor of the net foreign exchange position of the CBL will be adjusted down by the cumulative amount of financing relative to the programmed schedule of disbursements. The net foreign exchange position of the CBL is presented in the U.S. dollar. SDR holdings are valued at a fixed rate of the U.S. dollar against SDR, 1.5844 as of September 30, 2009. Other currencies are valued at cross-rates against the U.S. dollar as of September 30, 2009.

16. **The net domestic assets of the CBL** are defined as base money minus the net foreign assets of the CBL converted into United States dollars at program exchange rates as defined in paragraph 14**.** Base money is defined as the stock of currency in circulation plus reserve deposits of commercial banks at the CBL, plus sight deposits of commercial banks at the CBL and plus vault cash of commercial banks. The net foreign assets of the CBL are defined as foreign assets minus foreign liabilities of the CBL balance sheet.

17. **External financing adjustor**. The program ceilings for CBL gross credit to government and CBL net domestic assets will be adjusted upward and the program floor on the net foreign exchange position of the CBL will be adjusted downward, by the amount of the difference between actual and programmed external budget support and ratified concession signature payments up to a maximum of US$20 million. The adjuster will be calculated on a cumulative basis from the start of the financial year (July 1).

Cumulative Program External Budget Support and Ratified Concession Signature Payments

(In millions of U.S. dollars)

December 2010	27.8
March 2011	54.4
June 2011	92.6
September 2011	0.0
December 2011	51.1

II. Program Monitoring

A. Program–Monitoring Committee

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

B. Data Reporting to the IMF

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

- Detailed reports on monthly revenue and expenditure on both a cash and a commitment basis by budget line and a completed summary table on central government operations (monthly, within three weeks after the end of the month);
- Outstanding appropriations, allotments and commitments, and disbursements for line ministries and agencies (monthly, within three weeks after the end of the month);
- Disbursements of budget support grants and loans by donor (monthly, within three weeks after the end of the month);
- Daily balances in the GoL accounts at the CBL. These comprise the U.S. dollar: GoL General Account No. 2; the GoL Special Rice Fund; and Liberian dollar accounts: the GoL/CBL Civil Servant Payroll Account No.2, and the GoL General Account. Any new accounts opened by the GoL at the CBL or at any other local financial agency shall be reported to the IMF also (daily, within three days from the date of the statement);
- End-of-month balances of all operating and other accounts of the line ministries and agencies receiving budgetary appropriations (monthly within three weeks after the end of the month);
- A table providing the end-of-period stock of domestic arrears accumulated and payments made on arrears during the program period, by budget category (wages, goods and services, etc.) (monthly, within three weeks after the end of the month);
- The amount of new domestic debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);

- A report on monthly payments on domestic debt by category and the domestic debt stock (monthly, within three weeks after the end of the month);
- A report on monthly payments on foreign currency debt by category and the domestic debt stock (monthly, within three weeks after the end of the month);
- The amount of new external debt contracted or guaranteed by the public sector (monthly, within three weeks after the end of the month);
- The balance sheet of the CBL in the monthly monetary survey (monthly, within three weeks after the end of the month);
- The full monthly monetary survey of the monetary sector (monthly, within three weeks after the end of the month);
- The detailed table of commercial banks loans and advances by sector (monthly, within three week of end of month);
- The core set of financial soundness indicators by individual financial institution, including the overall profitability of the banking sector (quarterly, within three weeks after the end of the quarter);
- CBL cash revenues and expenditures in U.S. dollar and Liberian dollar terms, on an aggregated basis (including both recurrent and capital expenditure), and CBL expenditures on a commitment basis (periodically in the context of program reviews);
- The report on foreign exchange sales/purchases by the CBL through foreign exchange auctions held by the CBL (weekly), including U.S. dollars offered and sold, the auction rate, the number of accepted and rejected bids, the total value of bids and of rejected bids, foreign exchange auction sales to non-bank customers;
- Regular sale of U.S. dollars by the Ministry of Finance to the CBL, including amount date, and rate of exchange (monthly, within three weeks after the end of the month);
- Indicators of overall economic trends, including but not limited to:

  ➢ detailed tables of the monthly harmonized consumer price index (within three weeks after the end of the month);

  ➢ daily foreign exchange rates (weekly);

  ➢ export volumes and values by major commodity, import values by standard international trade classification (SITC), import volumes of rice (by commercial and non-commercial use) and petroleum products (monthly, within three weeks after the end of the month);

  ➢ interest rates and commercial bank remittance inflows and outflows (monthly, within three weeks after the end of the month); and

- ➢ production data in value and volume (monthly, within six weeks after the end of the month);

- Quarterly reports of state owned enterprise financial operations submitted to Ministry of Finance;

- The report on the status of implementation of the structural performance criteria and benchmarks specified in Table 2 of the MEFP (monthly, within three weeks after the end of the month).

20. The above data and reports will be provided in hard copies and electronically to the IMF Resident Representative to Liberia, with copies to the local IMF economist, Mr. Deline (adeline@imf.org) for further transfer to the African Department of the IMF in Washington, D.C.

Appendix II. Liberia: Tax Policy Changes, FY2012

Tax	2010/11 Policy	2011/12 Policy	Revenue Impact
Income tax (Effective January 1, 2011)			
Personal income	35% maximum rate	25% maximum rate and changes in tax brackets	↓
Corporate income	35% maximum rate	25% maximum rate and changes in tax brackets	↓
Import tariffs			
Change from BVD to GATT Valuation Method	BVD method	GATT method	↓
ECOWAS Common External Tariff Migration	Various rates and bands	Various rates and bands	↓
Renewed suspension of rice tariff	Suspended	Suspended	↓
Imported fuel duty waiver	Various specific duties	Suspended for selected users	↓
Goods and service tax			
Alcoholic Beverages	7%	10%	↑
Hotels	7%	10%	↑
Airline Tickets	7%	10%	↑
Excise tax			
Crystal or Granule Sugar	10%	5%	↓
Locally Manufactured Non-Alcoholic Beverages	5-10%	2%	↓
Imported Non-Alcoholic Beverages	5-10%	10%	↑
Locally Manufactured Alcoholic Beverages	11-25%	35%	↑
Imported Alcoholic Beverages	11-25%	35%	↑
Exported Scraps	-	5%	↑
Imported Water	-	35%	↑
Earth, Stone And Asbestos	30%	35%	↑
Special Communication Service Tax	-	8.0%	↑
Forestry	Bid premium	Forestry management fees at 25% bid premium	↓
Real estate tax			
Unimproved Land Within Corporate Limit	5-10%	2-4%	↓
Improved Land Any Location - Business or Commercial	1% if value <US$10,000 or 0.5% if value > US$10,000	1.5%	↑
Improved Land Any Location - Industrial	1.5% if value <US$10,000 or 1/3% if value >US$10,000	1.5%	↑
Improved Land Any Location - Residential	0.3%	0.1%	↓
Total All Policy Changes	**…**	**…**	↓
Total Gross Tax Increases	…	…	↑
Total Gross Tax Cuts	…	…	↓

Sources: Liberian authorities; and staff estimates.

APPENDIX III. LIBERIA: FINANCIAL STABILITY ISSUES

In 2010, there were no major challenges to financial system stability in Liberia, due to the strong capitalization and ample liquidity of commercial banks. However, brisk credit expansion was accompanied by an increase in the share of nonperforming loans and bank profitability remains low—these factors pose potential vulnerabilities going forward. The Central Bank of Liberia (CBL) is addressing these vulnerabilities through strengthening bank supervision and supporting financial sector development.

Banking Sector

1. **The banking sector continued to expand** (Table 1). Two new banks began full commercial banking activities in 2010, while the number of bank branches rose by a third (from 55 to 74 branches). Loan growth picked up in 2010 reflecting an expansion of economic activity. The level of financial intermediation measured by the ratio of M2 to GDP increased to 42.9 percent at end-2010. The growth in deposits outpaced lending, resulting in a decline of the loan-to-deposit ratios below 50 percent. The level of deposit dollarization was stable, though still elevated.

Appendix III Table 1. Liberia: Summary of Balance Sheet of the Banking Sector, 2007–10
(Millions of US dollars, unless otherwise indicated)

	Dec-07	Dec-08	Dec-09	Dec-10
Assets	231.2	317.8	411.6	562.5
	(25.1)	(37.4)	(29.5)	(36.7)
Loans	69.9	102.1	134.8	186.4
	(45.5)	(46.0)	(32.0)	(38.3)
Deposits	138.6	207.7	284.7	402.9
	(39.7)	(49.9)	(37.1)	(41.5)
Capital	5.5	63.8	95.2	128.1
	(73.9)	(17.0)	(49.2)	(34.6)
Deposit dollarization (%)	85.6	86.7	88.8	88.8

Note: Figures in parenthesis show percentage changes compared with the previous year.

Source: Central Bank of Liberia.

2. **The banking system is well capitalized and maintains a strong liquidity position** (Table 2). For the system as a whole, risk-weighted capital adequacy ratios are above 25 percent. The strong ratios are due to a phased-in increase of the minimum capital requirement to US$10 million completed by December 2010. The system liquidity to net assets ratio is well above 50 percent at end-2010.

Appendix III Table 2. Liberia: Capital Adequacy and Liquidity Indicators, 2007–10
(Percent)

	Dec-07	Dec-08	Dec-09	Dec-10
Regulatory capital to risk-weighted assets	28.4	22.0	28.1	27.4
Liquid assets to net assets	61.1	55.0	51.8	56.6

Source: Central Bank of Liberia.

3. **However, the nonperforming loan (NPL) ratio deteriorated considerably in 2010**. The increased NPL ratio mainly reflects a reclassification of loans that were capitalizing overdue interest and more broadly the difficult credit environment. With rising bad or doubtful debts, loan loss provisions relative to non-performing loans declined in 2010, though the absolute level of provisions rose (Table 3). On the supervisory side, the CBL strengthened on-site targeted credit examinations and off-site surveillance, and started pilot examinations under the risk-based supervision framework. Also the CBL recommended improvements to commercial bank internal risk-management guidelines.

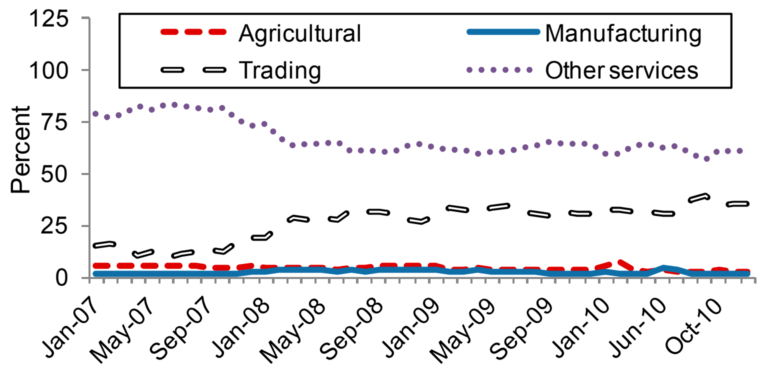
Appendix III Table 3. Liberia: NPL Related Indicators in the Banking Sector, 2007–10
(Percent, unless otherwise indicated)

	Dec-07	Dec-08	Dec-09	Dec-10
Nonperforming loans to total loans	16.4	17.4	10.9	25.1
Loan loss provisions to nonperforming loans	97.1	59.6	78.8	55.6
Value of NPLs (Millions of US dollar)	9.4	15.2	13.7	37.9
Value of provisions (Millions of US dollars)	9.2	9.1	10.8	21.1
Value of NPLs not provisioned (Millions of US do	0.3	6.1	2.9	16.8
Ratio of NPLs not provisioned to capital	0.9	15.1	3.9	18.4

Source: Central Bank of Liberia.

4. **Banks remain vulnerable to credit risks, due to a concentration of lending to a few large customers and sectors**. Bank lending is concentrated on the services sector and trading with short maturities. Lending concentration seemed to decline gradually with financial market expansion. Nevertheless, vulnerability to credit risks rose in 2010, because of interest arrears by selected fuel and cement importers with high loan exposures. On the supervisory side, a single borrower exposure limit has been set at 20 percent of bank's net worth. While this is more stringent than some other countries in the region, e.g., 35 percent for Ghana and 25 percent for Malawi and Nigeria, exceptions applied to the single borrower limit contribute to a concentration of lending.[1]

Appendix III Figure 1. Liberia: Sectoral Distribution of Bank Credits



Source: Central Bank of Liberia.

5. **The profitability of banks, as measured by the average return on equity, remains low**. More than half of bank earnings came from non-interest income, though the share of

[1] Loans collateralized by readily marketable goods, deposits with a value of at least 125 percent of the loan, and government-guaranteed securities.

non-interest income in total income continues to decline. The level of profitability reflects start up costs for new banks, rising loan loss provisions, high operating costs as well as excess liquidity.

6. **Looking ahead, raising asset quality and earnings are the key challenges for commercial banks**. The banking system will likely continue to grow steadily in 2011. Coupled with the favorable economic outlook, this would continue to support firm lending growth, which might be weighed down by more conservative lending policies by banks. The short maturity of banking system liabilities militates against long-term lending, although a market for longer term corporate debt instruments is beginning to take shape. The launch of the treasury bill program would help improve profitability and reduce excess liquidity.

Appendix III Table 4. Liberia: The Banking Sector's Earnings and Profitabilty, 2007–10
(Percent)

	Dec-07	Dec-08	Dec-09	Dec-10
Return on assets	0.6	0.7	0.6	0.5
Return on equity	4.5	5.4	3.4	0.3
Noninterest income to total income	71.9	66.4	61.7	53.9

Source: Central Bank of Liberia.

7. **High foreign ownership of the banking system poses potential cross-border risks**. Eight of nine operating commercial banks are majority foreign-owned. Notably, five Nigerian-owned banks account for a significant share of the Liberian banking sector (71 percent of assets in 2009). Cross border risks are recognized by the CBL through agreements to exchange information with other supervisors.[2] Looking forward, enhanced collaboration with regulatory agencies of countries where the parent companies of local banks are domiciled should be pursued to deal with potential cross-border risks.

Nonbank sector

8. **Microfinance institutions (MFIs), are growing rapidly, but from a small base, and do not pose a significant risk to financial stability**. MFI operations exhibited rapid growth in 2010, in part because a specialized microfinance commercial bank began operating. MFI clients increased in number by 327 percent (59,300 clients) and the outstanding loan portfolio by 472 percent (micro loans of US$13.3 million equivalent to about 1 percent of GDP) in 2010. The CBL issued a prudential regulation enabling MFIs to take deposits to help reduce dependence on donor support. The focus is moving toward building capacity in supervising MFIs with assistance from development partners and central banks in the region. MFIs are unlikely to face a systemic risk at this moment, but the low quality of the data reported to the CBL, lack of staff resources, and insufficient expertise might pose a risk to effective financial sector surveillance.

[2] Memoranda of understanding were signed with Central Bank of Nigeria in 2009 and with West African Monetary Zone in 2010.

INTERNATIONAL MONETARY FUND

LIBERIA

Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Extension of the Arrangement, and Augmentation of Access—Informational Annex

Prepared by African Department
(In consultation with other departments)

June 8, 2011

- **Relations with the Fund.** Describes financial and technical assistance from the Fund and provides information on the safeguards and assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 28.82 million (22.30 percent of quota) at end-March 2011.
- **Joint World Bank-IMF Work Program, 2010–11**.
- **Statistical Issues.** Assessment of the quality of the statistical data. Weaknesses in national accounts statistics are hampering the analysis of economic developments in the country.

Contents Page

I. LIBERIA—RELATIONS WITH THE FUND (AS OF APRIL 30, 2011)

1. **Membership Status:** Joined: March 28, 1962. Article XIV

2. **General Resources Account:**

	SDR Million	%Quota
Quota	129.20	100.00
Fund holdings of currency	129.18	99.99
Reserve Tranche Position	0.03	0.02

3. **SDR Department:**

	SDR Million	%Allocation
Net cumulative allocation	123.98	100.00
Holdings	136.69	110.25

4. **Outstanding Purchases and Loans:**

	SDR Million	%Quota
ECF Arrangements	28.82	22.30

5. **Latest Financial Arrangements:**

	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Mar 14, 2008	Jun 29, 2011	239.02	234.58
EFF	Mar 14, 2008	Sep 25, 2008	342.77	342.77
Stand-By	Dec 07, 1984	Dec 06, 1985	42.78	8.50

[1/] Formerly PRGF

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

	Forthcoming				
	2011	2012	2013	2014	2015
Principal	0.00	0.00	0.00	2.10	3.69
Charges/Interest	0.00	0.07	0.07	0.07	0.07
Total	0.00	0.07	0.07	2.17	3.75

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

7. **Implementation of HIPC Initiative:** Enhanced Framework

i. Commitment of HIPC assistance	
Decision point date	March 2008
Assistance committed	
By all creditors (US$ Million) [1/]	2,739.20
Of which: IMF assistance (US$ Million)	721.10
(SDR equivalent in millions)	440.90
Completion point date	June 2010

ii. Disbursement of IMF assistance (SDR Million)

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

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

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

8. **Delivery of Debt Relief at the Completion Point:**

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

ii. Debt relief by facility (SDR Million)

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

9. **Safeguards Assessment**

A safeguards assessment of the Central Bank of Liberia has been initiated in the context of the forthcoming augmentation. The previous assessment, completed in 2008, found that the CBL had largely addressed the recommended measures to increase transparency, however, it also found that internal audit capacity, along with the effectiveness of Audit Committee oversight of CBL financial reporting, audit, and control systems needed strengthening. A priority measure to engage its external auditor to conduct special periodic audits of the Monetary Data Reporting Package (MDRP) reported to the fund was adopted by the CBL. The latest audit of the MDRP, which was handed over to the CBL internal audit department beginning with the second half of 2010, highlighted minor discrepancies between data reported to the IMF and the accounting records of the CBL. These discrepancies were subsequently corrected and did not impact the performance target.

10. **Exchange Rate Arrangement**

Liberia maintains an exchange rate system that is free of restrictions on payments for current and capital transfers. The currency of Liberia is the Liberian dollar. The U.S. dollar is also legal tender. Since the beginning of 2009, the Liberian dollar has fluctuated more against the U.S. dollar. As a result, the classification of the de facto exchange rate arrangement is classified as ‘other managed’. Liberia’s exchange rate at end-March 2011 was L$72.20=US$1.

11. **Article IV Consultation**

The 2010 Article IV consultation discussions were held in Monrovia during September 21–October 1, 2010. The staff report (Country Report No. 10/373, December 2010) was discussed by the Executive Board on December 8, 2010 and is posted on the IMF website.

12. **Technical Assistance 2008–11**

Subject	**Department**	**Date**
Customs Administration	FAD	January 2008
Revenue Administration and Tax Administration	FAD	April 2008
Review of Revenue Administration		
Reforms and Technical Assistance Needs	FAD	February 2009
PFM—Drafting Regulations	FAD	February–March 2009
Fiscal Decentralization	FAD	February–March 2009
Balance of Payments	STA	January 2008
Banking Supervision	MCM	September 2008
Accounting	MCM	January 2009
Monetary Operations	MCM	March 2009
GFS	STA	April–May 2009
PFM Regulations Drafting	FAD	May 2009
Revenue Authority, Customs and Tax		
Administration	FAD	May 2009
Legal Drafting	LEG	May 2009
Foreign Exchange Operations	MCM	June 2009
PFM	FAD	June 2009
Accounting Standards	MCM	August–September 2009
Tax Administration	FAD	September 2009
Banking Supervision	MCM	September–October 2009
Monetary Operations	MCM	October 2009
Tax Policy	FAD	November 2009
Legal Drafting	LEG	December 2009

Subject	Department	Date
Monetary Finance Statistics	STA	March–April 2010
National Accounts	STA	April 2010
Central Bank Accounting Standards	MCM	May 2010
Monetary Operations	MCM	June–July 2010
Revenue Administration	FAD	July 2010
Drafting Tax Legislation	LEG	July 2010
National Accounts	STA	July–August 2010
Banking Supervision	MCM	August 2010
Revenue Administration	FAD	September 2010
PFM	FAD	October 2010
Revenue Department Strategic Plan	FAD	November–December 2010
Tax Policy	FAD	November–December 2010
Revenue Administration	FAD	December 2010
PFM Strategy	FAD	December 2010
Bank Payment Systems	MCM	December 2010
National Accounts	STA	January 2011
Revenue Department Strategic Plan	FAD	January–February 2011
Central Bank Accounting	MCM	January–February 2011
Cash Flow planning and Government Banking Arrangements	FAD	February 2011
Legal Drafting	LEG	March 2011
Central Bank Modernization	MCM	March–April 2011
Balance of Payments	STA	March–April 2011
MTEF	FAD	March 2011
PFM Strategy	FAD	March–April 2011
Bank Payment Systems	MCM	May 2011
Resident Advisors		
Banking Supervision	MCM	February 2007–August 2008
Payment Systems	MCM	April 2007–October 2007
Long-term Advisor for the CBL	MCM	August 2007–October 2009
Public Financial Management	FAD	July 2008–Present

13. **Resident Representative**

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

II. Liberia—Joint World Bank-IMF Work Program, 2010–11
(As of end-May 2011)

Title	Products	Timing of mission	Expected delivery date	Status
A. Mutual information on relevant work programs				
1. World Bank work program	1. Liberia Poverty Assessment	January 2010	September 2011	Ongoing (Phase 1 completed dissemination Workshop held in March 2011)
	2. Fourth Reengagement and Reform Support Program (RRSPIV)	November 2010	September 2011	Policy discussions
	3. Poverty Reduction Strategy - Support	November 2010	June 2011	Ongoing
	4. Policy Note on Concessions	October 2010	June 2011	Drafts completed
	5. Economic Governance and Institutional Reform Project	November 2010	August 30, 2011	Ongoing
2. IMF work program	1. Fifth Review of ECF	October 2010	December 2010	Completed December 2010
	2. Assist authorities in setting up macroeconomic framework tool	October 2010	January 2011	Completed October 2010
	3. Sixth review of ECF	March-April 2011	June 2011	Scheduled June 2011
	4. Evaluation of delays in domestically funded investment program and recommendations for improvement	March-April 2011	April 2011	Completed April 2011
	5. Outreach events for Liberian legislators, CSOs and the business community	Early 2012	May 2011-April 2012	Concept stage
3. Work jointly performed	1. Joint Workshop with senior legislatures on infrastructure financing and debt	April 2010	Mid-2010	Cancelled due to logistical difficulties
	2. Assist the authorities in developing MTEF/PSIP framework for 2011/12 budget	April 2011 (Fund) October 2010 (Bank)	April 2011 (Fund)	Completed (Fund)
	3. Assist the authorities in compiling 2008 National Accounts	July 2010 (Fund) October 2010 (Bank) February 2011 (Fund)	February 2011 (Fund)	Ongoing: subject to technical delays
	4. Presentation to the newly established Legislative Budget Office on the role of the Fund in Liberia and the Fund-supported program in the context of the second Poverty Reduction Strategy	To be carried out by IMF Resident Representative and World Bank	September 2011	Concept stage
B. Requests for work program inputs				
4. Fund request to Bank	1. Assistance in elaborating and delivering financial sector development program	2011	Not decided	
5. Bank request to Fund	1. Regular updates of performance under the Fund-supported program and macroeconomic projections.		Continuous	Last update September 2010
	2. IMF Relations Note		As needed	

III. Liberia—Statistical Issues

As of May 1, 2011

1. Assessment of Data Adequacy for Surveillance
General: Data have serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in the areas of national accounts and balance of payments statistics.
National Accounts: Comprehensive national accounts data are not available. Fund staff estimate GDP by sector using the production approach and primary source data provided by the Liberia Institute of Statistics and Geo-Information Services. Estimates for GDP by expenditure are not available. Consequently, there is a high degree of uncertainty regarding estimates of the level and growth rate of real GDP, sectoral components, and all ratios to nominal GDP. Liberia participates in the National Accounts Module of the Enhanced Data Dissemination Initiative (EDDI), which aims to strengthen annual national accounts, and to develop producer price indices. The national business register and national accounts questionnaires were established in December 2008. A second round of the national accounts establishment survey has been completed–after low response rates from the first one–and data are being compiled. The Fund is currently providing TA in this area aimed at verifying and validating the source data for the formal economy. There are, however, challenges to estimating informal sector activities. A Household Expenditure and Income Survey planned for 2012 will provide data from which such estimates may be developed. A desk-based review with Fund assistance is underway to address methodological issues related to supply and use tables (SUT) for 2008 that have been independently developed. The current lack of reliable and consistent SUT data seriously undermines the accuracy and the coverage of the GDP estimates developed through this technique.
Price statistics: A consumer price index for Monrovia has been compiled since 2005. The Harmonized Consumer Price Index providing national coverage was officially adopted in 2007.
Government finance statistics: The Ministry of Finance regularly provides the African Department with monthly disaggregated data on budgetary central government revenue recorded on a cash basis, and expenditure recorded on both cash and commitment basis. While they are in the process of phasing-in the *GFSM 2001* framework, there is still a number of areas where the government finance statistics need to be improved: lack of legal framework to collect statistics; limited data sharing and coordination among data producing agencies; inconsistent institutional coverage of the statistics with other datasets (e.g. national accounts and monetary statistics); omission of nonmonetary transactions; limited data on stocks of financial assets, liabilities, and arrears; and incorrect reference exchange rate to convert data from Liberian dollars to U.S. dollars.
Monetary statistics: Data provision in this area is adequate for surveillance. The Central Bank of Liberia has made progress in adopting the statistical methodology recommended by the IMF's *Monetary and Financial Statistics Manual* (MFSM).

2. Assessment of Data Adequacy for Surveillance (continued)	
However, the reporting of monetary and financial statistics (MFS) has been suspended since June 2009. An STA mission in March 2010 assisted authorities in advancing the introduction of standardized report forms of MFS and collecting data from commercial banks in accordance with the methodology in the MFSM.	
Balance of payments: Reporting is not comprehensive, and Fund staff prepare provisional balance of payments statistics for surveillance. Although some progress in the collecting and reporting of data has been made with STA support, there still remain several areas that need improvement: primary source data, compilation, and timeliness in data dissemination, especially for trade and services, foreign direct investment, government expenditures, remittances, and nonresident deposits data.	
3. Data Standards and Quality	
Participant in the General Data Dissemination System (GDDS) since October 2005.	Liberia has not yet received a mission to produce the Data Module of the Reports on the Observance of Standards and Codes (data ROSC).
4. Reporting to STA	
The authorities report annual balance of payments data and government finance statistics to the related publications (*IFS, GFSY,* and *BOPSY).*	

INTERNATIONAL MONETARY FUND

AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

LIBERIA

JOINT IMF/WORLD BANK DEBT SUSTAINABILITY ANALYSIS[1]

Prepared by the staffs of the International Monetary Fund and the World Bank

Approved by Sean Nolan and Jan Kees Martijn (IMF)
And Marcelo Guigale and Jeffrey D. Lewis (World Bank)

June 8, 2011

An update of the Debt Sustainability Analysis (DSA) indicates that Liberia has a low risk of debt distress. The macroeconomic assumptions include the restart of iron ore and timber exports in 2011/12, which will substantially improve the current account of the balance of payments over the medium term. However, in the immediate period ahead, the trade balance will deteriorate on account of large foreign direct investment (FDI) related imports for the mining sector. Since the 2010 DSA[2] there have been no changes in the debt management policy. Consistent with the debt management policy the DSA assumes a ceiling on annual foreign currency borrowing of 3 percent of GDP in NPV terms. The projected net present value of the external debt stock would remain low and sustainable with all debt indicators well below the policy-related thresholds.

I. KEY ASSUMPTION UNDER THE BASELINE SCENARIO

1. **The profile of external and public debt indicators is similar to the 2010 DSA, and confirms Liberia's low risk of debt distress**. Following the achievement of the HIPC completion point in June 2010, Paris Club creditors canceled in full the remaining outstanding debt. All but one of the related bilateral agreements were signed before the March 2011 deadline. Negotiations have advanced with the remaining non-Paris Club creditors, and an agreement was recently reached with Kuwait on comparable terms.

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[1] The LIC-DSA incorporates the following general assumptions: (i) the discount rate is fixed at 4 percent; (ii) the export denominator is based on the current year data for exports of goods and services; (iii) the exchange rates are based on WEO assumptions; and (iv) the risk of debt distress based on country-specific policy-dependent thresholds, based on the country's CPIA index, which for Liberia is 2.78. All data refer to the financial year which runs from July to June.

[2] IMF Country Report No. 10/192.

Discussions with ECOWAS, BADEA and the OPEC Fund for International Development (OFID) have also advanced somewhat.[3] The latest bilateral agreements further reduce the end-2010/11 external debt stock from 17 percent, projected in the 2010 DSA, to 10.6 percent of GDP.

2. **The key assumptions under the baseline scenario are broadly in line with those used in the 2010 DSA** (Box 1) although some adjustments were made to reflect delays that may result in a more gradual expansion of the mining and timber sectors, mainly due to difficulties in rehabilitating transport infrastructure.

3. **The baseline is subject to substantial upside and downside risks**. On the upside, the authorities have so far ratified four large long-term iron ore concession agreements and a fifth one is under negotiation. However, the baseline scenario cautiously assumes that only one concession operates over the forecast period. GDP and export earnings and fiscal revenues over the longer term are therefore conservative estimates. On the downside, the pace of implementation of the iron ore investment and the production profile is closely linked to global conditions, particularly commodity prices. Consequently, a decline in commodity prices, as occurred in 2009, could have an impact on the timing of investment implementation as well as on the level of production.

II. External Debt Sustainability

4. **Following the full cancelation of the debt owed to Paris Club creditors and final agreement with the remaining commercial creditors, Liberian nominal external debt declined further to 10.6 percent of GDP in 2010/11** (Table 1). Contrary to the 2010 DSA, in the first few years the debt dynamics are no longer dominated by repayments of the remaining debt to Paris Club creditors as this debt was cancelled under the September 2010 Paris Club agreement. Under the assumption of new borrowing at an annual average of 3 percent of GDP, the updated DSA confirms that all debt indicators are expected to remain below their policy-related thresholds[4]. The PV of the external debt-to-GDP ratio will gradually rise from roughly 8 percent in 2010/11 to 15 percent by 2019/2020, and remain below 20 percent up to 2029/30. Similarly, the ratios of debt and debt service to exports and to revenues are expected to remain well below their threshold values (Figure 1, Table 2).[5]

[3] Despite significant efforts, the authorities have not been able to reach agreement with Taiwan, Province of China.

[4] In the period 2014/15 to 2020/21, the large residuals are mainly related to the debt repayments of foreign investment projects.

[5] The Debt Sustainability Framework indicative ceilings for Liberia are (i) 30 percent of GDP for the PV of external debt; (ii) 100 percent for the ratio of PV of external debt to exports; and (iii) 200 percent for the ratio of PV of external debt to revenue.

Box 1. Key Baseline Macroeconomic Assumptions

Real GDP growth is assumed to accelerate in the next few years, supported by resumption of iron ore and timber exports, and by construction in the mining sector. Real annual growth is therefore expected to average 7¾ percent during 2011/12-2015/16 as production from the first iron ore mine rises to full capacity. Average annual growth rates would then slow to an average of 4¼ percent during 2016/17 to 2029/30. However, activity at any of the other iron ore concessions, the initiation of petroleum production, or higher non-mineral sector activity could raise annual growth rates substantially.

Inflation in local currency is assumed to decelerate starting 2010/11, and to stabilize at 5 percent by 2013/14. This outturn is supported by restrained monetary and fiscal policies over the projection period, with the fiscal deficit—averaging 3½ percent of GDP—used mainly to finance development projects with relatively high import contents.

The trade deficit is expected to initially weaken due to strong imports associated with mining-related construction, and then improve as the construction phase of mining winds down and exports of ore approach full capacity in FY2014/15.

Exports are expected to increase faster than assumed in the 2010 DSA, due to higher prices in the commodity sectors, particularly for rubber and iron ore. Exports of goods and services are projected to grow on average by 24 percent during the period 2010/11–2015/16 as mining exports increase to capacity. Thereafter, the export growth rate is to slow to an average of 4 percent over the period 2016/17 to 2029/30.

In line with the 2010 DSA, import trends would be dominated by FDI-related activity. Import growth is projected to average 15 percent for the period 2010/11–2012/13 due to the construction phase of the above-mentioned mining project, and then in 2018 slow down to about 4 percent growth.

The current account deficit is expected to increase during the construction of the big mining projects by reaching 68 percent in FY2012/13, to rapidly decline at the conclusion of the investment phase of these projects (31 percent in FY2014/15), and fluctuate at a around 10 percent afterwards.

Tax revenues are projected to decline to 20 percent of GDP in 2011/12 due to tax policy changes, and to broadly stabilize at this level throughout the period. The fiscal revenues associated with the single iron ore project in the projection are back loaded, with two thirds expected in the second half of the period.

The external borrowing policy is the same as that assumed in 2010 DSA, with annual borrowing (disbursement basis) in line with the medium-term fiscal anchor of annual borrowing in foreign currency of up to 3 percent of GDP in NPV terms. Given the large infrastructure needs, and limited domestic financing sources, nominal external borrowing is expected to restart in 2011/12 (1½ percent of GDP). It is assumed to rise to 5 percent of GDP by FY2014/15 (nominal terms) and then decline gradually to stabilize at 2 percent of GDP in 2022/23. All new external borrowing is assumed to be on concessional (IDA) terms. Domestic borrowing, supplied through a planned Treasury bill market, is assumed constant at 1 percent of GDP per year beginning in 2012/13.

External grants (excluding UNMIL) are expected to progressively decline from 37 percent of GDP in 2010/11 to about 28 percent in 2014/15 and to 16 percent by the end of the projections period.

5. **These results remain broadly unchanged under alternative scenarios and stress test, with the exception of the historical scenario**.[6]

- **The PV of external debt-to-GDP ratio** remains sensitive to lower exports and FDI, and to a larger extent, higher interest rates on new borrowing. Under the exports stress test (historical average minus one standard deviation), the PV of external debt-to-GDP ratio would increase from 12 percent in 2011/12 and stabilize at 22 percent in 2020/21. The stress test for FDI (historical average minus one standard deviation) shows a similar trend—the PV of the external debt-to-GDP ratio will rise from 10½ percent in 2011/12 to 16 percent in 2020/21, and further to 18 percent by the end of the projection period. Assuming less favorable terms for new loans (interest rate 2 percentage points higher than in the baseline), the PV of external debt will reach 25 percent in 2020/21, and 30 percent by the end of the projection period. The PV of external debt is only moderately sensitive to declines in growth: shocks to annual growth of one standard deviation from historical levels lead to a deterioration over the projection period from 8 to 18 percent of GDP, only one percentage point higher than in the baseline. A combined stress test (which assumes exports, FDI and GDP growth at historical values minus one-half a standard deviation) would raise the PV of external debt-to-GDP ratio to 24 percent in 2012/13, which would then peak at 27 percent in 2020/21. Staff does not consider the breach of the historical scenario test as a potential risk—mainly because the historical period was characterized by very low foreign direct investment levels, limited production, and large current account deficits following the end of an extensive period of political and social instability.

- **The external debt-to-exports ratio** is also sensitive to the above-mentioned combined stress test. Under this combined shock, this ratio will reach 42 percent in 2020/21 and gradually increase to 46 percent in 2028/29. Lower exports would also lead to a substantial deterioration of the ratio, which will reach 32 percent in 2020/21 and 36 percent by end-2029/30.

- **The PV of external debt-to-revenue ratio** follows a similar trend, showing some sensitivity to exports and less favorable borrowing terms, but with all indicators remaining below the applicable threshold.

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[6] As stressed in the previous Debt Sustainability Analysis (IMF Country Report No. 10/192), given the lack of reliable historical data, the DSA uses only 2004/05 to 2009/10 data. The staffs do not consider the breach of the historical scenario test as a potential risk, mainly because the historical period was characterized by very low foreign direct investment levels, limited production, and large current account deficit following the end of an extensive period of political and social instability.

III. Public Sector Debt Sustainability

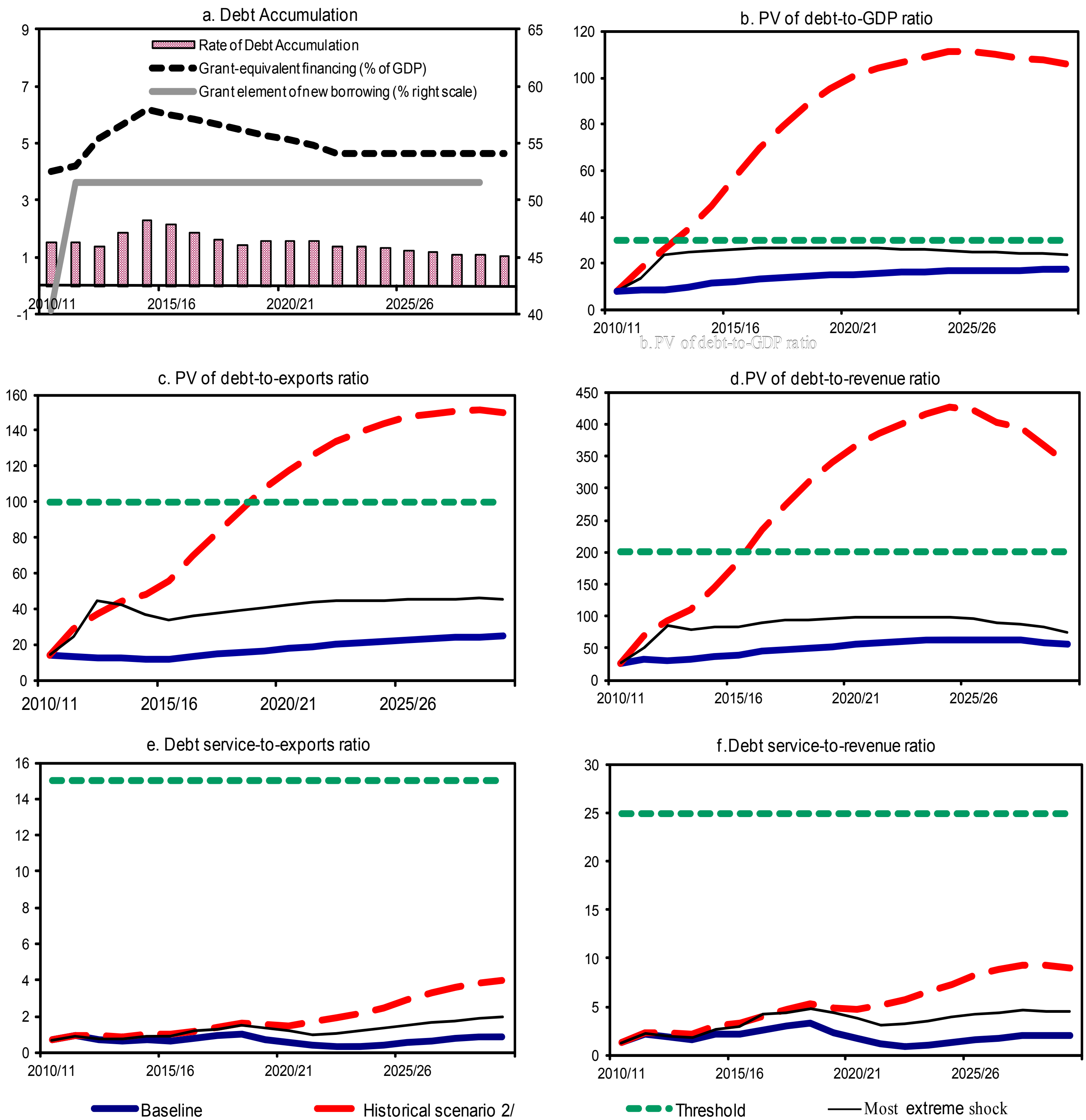
6. **Public debt indicators also benefited from the full cancellation of Paris Club debt** (Figure 2, Table 3). While starting from a lower base, the PV of public debt-to-GDP ratio follows similar dynamics to the 2010 DSA. In the baseline, the PV of public debt-to-GDP ratio rises from 11 percent in 2010/11 to 22 percent in 2019/20 and then continues to increase gradually, reaching 27 percent in 2029/30. The PV of debt-to-revenue ratio would rise steadily, reaching 85 percent in 2025/26 after which it begins a gradual decline. The debt service-to-revenue ratio will reach its peak of 5 percent only at the end of the projection period.

7. **Alternative and shock scenarios illustrate the potential vulnerability of public debt ratios** (Table 4). Under the alternative scenario of permanently lower annual GDP growth, the PV of debt-to-GDP ratio will increase from 11 percent in 2010/11 to 29 percent in 2020/21 and reach 47 percent by the end of the projection period. The PV of debt-to-GDP also deteriorates under the assumption of a 10 percent of GDP increase in debt accumulation, where the ratio will gradually increase from 11 percent in 2010/11 to 29 percent in 2020/21, and reach 33 percent in 2029/30. The PV of the public debt-to-revenue ratio will also worsen substantially under a permanently lower GDP growth scenario, reaching about 135 percent in 2020/21 and 174 percent in 2029/30. Finally, the debt service-to-revenue ratio will peak at 10 percent in 2029/30 under the lower permanent GDP growth scenario.

IV. Conclusion

8. **Following the additional debt relief provided by Paris Club creditors, Liberia's debt outlook has improved somewhat in the medium term, and its low risk of debt distress has been confirmed**. However, it continues to show some sensitivity to shocks, particularly to the assumption of higher interest rates on new external borrowing. In the baseline scenario, which includes annual average new external borrowing of 3 percent of GDP on concessional terms, Liberia's debt indicators remain well below the relevant indicative thresholds, and these are not breached under any of the relevant stress tests.

Figure 1. Liberia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010/11-2029/30 1/

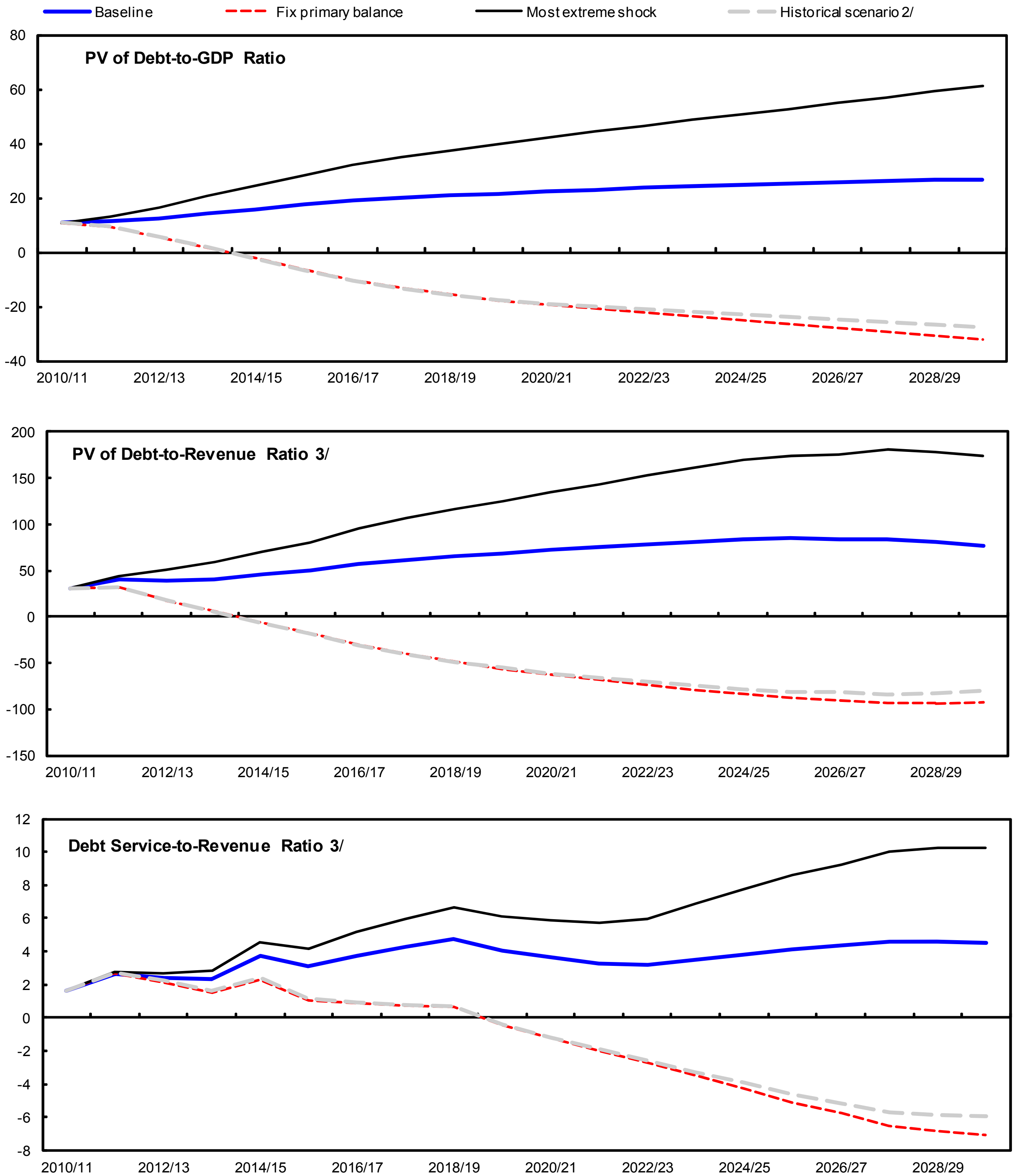


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019/20. In figures b, d, e, and f it corresponds to loans on less favorable terms; in c. to export values growing at historical average minus one standard deviation.

2/ Given the lack of reliability of historical data, the DSA uses only FY2004/05 to FY2009/10 data. The historical scenario breaches the PV of debt to GDP threshold, but staff does not consider this a reliable indicator of potential debt distress, as it results mainly from the high current account deficits in the period following the return of political stability.

Figure 2 Liberia: Indicators of Public Debt Under Alternative Scenarios, 2010/11-2029/30 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020/21.

2/ Given the lack of reliability of historical data, the DSA uses only FY2004/05 to FY2009/10 data . The historical scenario breaches the PV debt to GDP threshold, but staff does not consider this a reliable indicator of potential debt distress, as it results mainly from the high current account deficits in the period following the return of political stability.

3/ Revenues are defined inclusive of grants.

Table 1. Liberia : External Debt Sustainability Framework, Baseline Scenario, 2010/11-2029/30 1/
(In percent of GDP, unless otherwise indicated)

	Actual		Projections															
	Historical average 7/	Standard deviation 7/	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2010/11-2015/16 Average	2016/17	2019/20	2020/21	2021/22	2024/25	2025/26	2028/29	2029/30	2016/17-2029/30 Average
External debt (nominal) 1/			**10.6**	**11.4**	**12.7**	**15.5**	**18.8**	**21.4**		**23.9**	**27.5**	**28.2**	**28.7**	**29.1**	**29.2**	**29.5**	**29.5**	
o/w public and publicly guaranteed (PPG)			10.6	11.4	12.7	15.5	18.8	21.4		23.9	27.5	28.2	28.7	29.1	29.2	29.5	29.5	
Change in external debt			-176.0	0.8	1.3	2.9	3.3	2.6		2.5	0.9	0.7	0.5	0.1	0.1	0.1	0.0	
Identified net debt-creating flows			-8.3	0.7	2.2	1.8	-3.1	-9.7		-11.0	-8.0	-5.5	-3.2	-3.2	-0.4	1.4	1.6	
Non-interest current account deficit	**34.8**	**10.7**	**40.3**	**51.3**	**63.7**	**54.4**	**24.7**	**3.4**		**0.8**	**3.4**	**5.6**	**7.6**	**6.8**	**9.4**	**10.6**	**10.7**	`
Deficit in balance of goods and services			125.0	120.6	108.4	82.9	40.1	14.3		13.3	13.8	15.7	17.4	16.1	16.1	15.9	15.3	
Exports			58.2	63.9	71.3	78.2	94.0	103.8		100.2	88.9	85.5	82.3	77.1	75.2	70.8	70.7	
Imports			183.2	184.5	179.7	161.1	134.1	118.1		113.5	102.7	101.3	99.8	93.2	91.3	86.8	86.0	
Net current transfers (negative = inflow)	-147.1	29.8	-97.6	-80.5	-64.9	-55.1	-44.0	-35.5		-31.7	-26.9	-25.8	-24.8	-22.5	-21.8	-20.3	-19.9	-24.3
o/w official			-37.1	-33.7	-30.5	-29.4	-27.8	-26.1		-25.3	-22.2	-21.2	-20.3	-18.3	-17.7	-16.4	-16.0	
Other current account flows (negative = net inflow)			12.9	11.1	20.2	26.7	28.6	24.6		19.3	16.5	15.7	14.9	13.2	15.1	15.0	15.3	
Net FDI (negative = inflow)	**-15.0**	**13.0**	**-38.6**	**-49.9**	**-60.7**	**-51.9**	**-26.8**	**-12.0**		**-11.0**	**-10.3**	**-10.1**	**-9.8**	**-9.1**	**-8.9**	**-8.4**	**-8.3**	-9.5
Endogenous debt dynamics 2/			**-10.0**	**-0.6**	**-0.8**	**-0.7**	**-1.0**	**-1.1**		**-0.8**	**-1.0**	**-1.0**	**-1.1**	**-0.9**	**-0.9**	**-0.8**	**-0.8**	
Contribution from nominal interest rate			0.2	0.1	0.1	0.1	0.1	0.1		0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Contribution from real GDP growth			-10.1	-0.7	-0.9	-0.8	-1.1	-1.2		-0.9	-1.2	-1.2	-1.3	-1.1	-1.1	-1.1	-1.1	
Contribution from price and exchange rate changes			...	...	...	...	...	...		...	...	...	...	...	...	...	...	
Residual (3-4) 3/			**-167.7**	**0.1**	**-1.0**	**1.0**	**6.4**	**12.3**		**13.4**	**8.9**	**6.2**	**3.7**	**3.3**	**0.5**	**-1.3**	**-1.5**	
o/w exceptional financing			-5.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PV of external debt			8.2	8.4	8.6	9.9	11.2	12.3		13.4	14.8	15.2	15.6	16.5	16.8	17.2	17.3	
In percent of exports			14.0	13.1	12.1	12.6	11.9	11.8		13.3	16.6	17.8	19.0	21.5	22.3	24.3	24.4	
PV of PPG external debt			**8.17**	**8.4**	**8.6**	**9.9**	**11.2**	**12.3**		**13.4**	**14.8**	**15.2**	**15.6**	**16.5**	**16.8**	**17.2**	**17.3**	
In percent of exports			**14.04**	**13.1**	**12.1**	**12.6**	**11.9**	**11.8**		**13.3**	**16.6**	**17.8**	**19.0**	**21.5**	**22.3**	**24.3**	**24.4**	
In percent of government revenues			**26.40**	**32.3**	**30.7**	**31.6**	**36.3**	**39.5**		**45.3**	**53.0**	**55.5**	**58.0**	**63.4**	**63.7**	**58.8**	**55.2**	
Debt service-to-exports ratio (in percent)			**0.69**	**0.9**	**0.7**	**0.6**	**0.7**	**0.7**		**0.8**	**0.7**	**0.6**	**0.4**	**0.4**	**0.5**	**0.8**	**0.9**	
PPG debt service-to-exports ratio (in percent)			**0.69**	**0.9**	**0.7**	**0.6**	**0.7**	**0.7**		**0.8**	**0.7**	**0.6**	**0.4**	**0.4**	**0.5**	**0.8**	**0.9**	
PPG debt service-to-revenue ratio (in percent)			**1.30**	**2.2**	**1.8**	**1.6**	**2.2**	**2.2**		**2.6**	**2.3**	**1.7**	**1.2**	**1.3**	**1.6**	**2.0**	**2.0**	
Total gross financing need (Millions of U.S. dollars)			22.0	23.8	50.1	45.7	-23.9	-141.9		-178.3	-148.7	-100.5	-50.9	-64.6	31.7	116.8	134.9	
Non-interest current account deficit that stabilizes debt ratio			216.3	50.5	62.4	51.6	21.4	0.8		-1.6	2.5	5.0	7.1	6.7	9.3	10.6	10.7	
Key macroeconomic assumptions																		
Real GDP growth (in percent)	6.4	1.8	6.2	8.3	8.6	6.8	7.7	7.2	7.5	4.6	4.9	4.9	4.8	4.1	4.1	3.8	3.8	4.3
GDP deflator in US dollar terms (change in percent)	6.7	3.4	7.9	8.1	4.3	-0.1	0.6	1.7	3.7	1.5	2.8	2.7	2.6	2.2	2.1	1.8	1.7	2.2
Effective interest rate (percent) 4/	0.0	0.0	0.1	1.2	1.0	0.9	0.8	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7
Growth of exports of G&S (US dollar terms, in percent)	15.1	19.2	22.7	28.4	26.4	17.0	30.2	20.3	24.2	2.5	3.5	3.6	3.6	4.6	3.6	3.7	5.4	3.8
Growth of imports of G&S (US dollar terms, in percent)	22.8	32.8	13.2	17.8	10.4	-4.4	-9.8	-4.1	3.9	2.1	4.6	6.2	6.0	4.2	4.2	3.8	4.6	4.3
Grant element of new public sector borrowing (in percent)	...	...	23.5	40.4	51.6	51.6	51.6	51.6	45.0	51.6	51.6	51.6	51.6	51.6	51.6	51.6	51.6	51.6
Government revenues (excluding grants, in percent of GDP)			31.0	25.9	28.0	31.2	30.9	31.1		29.5	27.9	27.4	27.0	26.1	26.3	29.3	31.3	27.8
Aid flows (in Millions of US dollars) 5/			38.1	59.1	94.0	115.4	141.5	147.9		150.4	162.4	166.0	169.1	186.5	198.2	234.5	247.5	
o/w Grants			38.1	39.1	51.4	54.8	59.4	64.7		68.7	85.6	92.2	99.2	120.1	127.7	151.0	159.4	
o/w Concessional loans			0.0	20.0	42.6	60.6	82.1	83.2		81.7	76.9	73.9	69.9	66.4	70.6	83.5	88.1	
Grant-equivalent financing (in percent of GDP) 6/			4.0	4.2	5.2	5.7	6.2	6.0		5.8	5.3	5.1	4.9	4.6	4.6	4.6	4.6	5.0
Grant-equivalent financing (in percent of external financing) 6/			73.1	72.2	78.0	74.6	71.9	72.8		73.7	77.1	78.4	80.0	82.8	82.8	82.8	82.8	80.1
Memorandum items:																		
Nominal GDP (Millions of US dollars)			1071.5	1253.4	1420.5	1515.2	1641.9	1789.5		1899.9	2365.3	2547.8	2741.2	3321.0	3529.2	4173.9	4407.1	
Nominal dollar GDP growth			14.6	17.0	13.3	6.7	8.4	9.0	11.5	6.2	7.8	7.7	7.6	6.4	6.3	5.6	5.6	6.7
PV of PPG external debt (in Millions of US dollars)			86.3	102.8	120.2	146.9	181.5	216.6		250.1	344.2	381.7	422.3	541.3	582.6	707.5	750.5	
(PVt-PVt-1)/GDPt-1 (in percent)			1.5	1.5	1.4	1.9	2.3	2.1	1.8	1.9	1.6	1.6	1.6	1.3	1.2	1.1	1.0	1.4

Sources: Country authorities; and staff estimates and projections.

1/ Public 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/ Current-year interest payments divided by previous period debt stock.
5/ Defined as grants, concessional loans, and debt relief.
6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).
7/ Historical averages and standard deviations are derived over 2004/05-2009/10.

Table 2.Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009/10-2029/30
(In percent)

	Projections													
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2019/20	**2020/21**	2021/22	2024/25	2025/26	2028/29	2029/30
	PV of debt-to GDP ratio													
Baseline	8.2	8.4	8.6	9.9	11.2	12.3	13.4	14.8	**15.2**	15.6	16.5	16.8	17.2	17.3
A. Alternative Scenarios														
A1. Key variables at their historical averages in 2010/11-2030-31 1/	8.2	18.1	26.3	34.6	44.8	57.4	69.5	95.3	**100.6**	104.1	111.1	111.3	107.4	106.1
A2. New public sector loans on less favorable terms in 2010/11-2030-31 2	8.2	9.1	10.3	12.8	15.7	18.0	20.3	24.1	**25.1**	25.9	27.6	28.1	29.6	30.0
B. Bound Tests														
B1. Real GDP grow th at historical average minus one standard deviation in 2011/12-2012/13	8.2	8.5	9.1	10.4	11.9	13.0	14.2	15.6	**16.1**	16.6	17.5	17.7	18.2	18.3
B2. Export value grow th at historical average minus one standard deviation in 2011/12-2012/13 3/	8.2	11.7	18.6	19.5	20.4	20.9	21.8	22.2	**22.3**	22.4	21.7	21.5	20.9	20.7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011/12-2012/13	8.2	8.6	8.9	10.2	11.7	12.8	13.9	15.4	**15.8**	16.3	17.2	17.4	17.9	18.0
B4. Net non-debt creating flow s at historical average minus one standard deviation in 2011/12-2012/13 4/	8.2	10.6	10.5	11.7	13.0	13.9	14.9	16.1	**16.5**	16.8	17.4	17.5	17.7	17.7
B5. Combination of B1-B4 using one-half standard deviation shocks	8.2	13.4	23.7	24.6	25.4	25.8	26.6	26.8	**26.8**	26.7	25.5	25.1	24.0	23.7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011/12 5/	8.2	11.4	11.7	13.4	15.3	16.8	18.2	20.1	**20.7**	21.3	22.5	22.8	23.4	23.5
	PV of debt-to-exports ratio													
Baseline	14.0	13.1	12.1	12.6	11.9	11.8	13.3	16.6	**17.8**	19.0	21.5	22.3	24.3	24.4
A. Alternative Scenarios														
A1. Key variables at their historical averages in 2010/11-2030-31 1/	14.0	28.4	36.9	44.2	47.7	55.4	69.4	107.1	**117.7**	126.4	144.1	148.0	151.7	150.1
A2. New public sector loans on less favorable terms in 2010/11-2030-31 2	14.0	14.2	14.5	16.4	16.7	17.3	20.2	27.2	**29.3**	31.5	35.9	37.4	41.7	42.4
B. Bound Tests														
B1. Real GDP grow th at historical average minus one standard deviation in 2011/12-2012/13	14.0	12.8	11.9	12.4	11.8	11.7	13.1	16.4	**17.5**	18.7	21.1	21.9	23.9	24.1
B2. Export value grow th at historical average minus one standard deviation in 2011/12-2012/13 3/	14.0	20.4	31.9	30.5	26.6	24.8	26.7	30.6	**32.0**	33.3	34.6	35.1	36.2	35.8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011/12-2012/13	14.0	12.8	11.9	12.4	11.8	11.7	13.1	16.4	**17.5**	18.7	21.1	21.9	23.9	24.1
B4. Net non-debt creating flow s at historical average minus one standard deviation in 2011/12-2012/13 4/	14.0	16.6	14.8	15.0	13.8	13.4	14.9	18.1	**19.3**	20.4	22.5	23.3	25.0	25.1
B5. Combination of B1-B4 using one-half standard deviation shocks	14.0	24.2	44.9	42.4	36.5	33.6	35.9	40.6	**42.3**	43.7	44.6	45.0	45.8	45.2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011/12 5/	14.0	12.8	11.9	12.4	11.8	11.7	13.1	16.4	**17.5**	18.7	21.1	21.9	23.9	24.1
	PV of debt-to-revenue ratio													
Baseline	26.4	32.3	30.7	31.6	36.3	39.5	45.3	53.0	**55.5**	58.0	63.4	63.7	58.8	55.2
A. Alternative Scenarios														
A1. Key variables at their historical averages in 2010/11-2030-31 1/	26.4	70.0	93.9	110.8	145.1	184.5	235.9	341.4	**366.8**	385.9	425.8	422.8	367.2	338.9
A2. New public sector loans on less favorable terms in 2010/11-2030-31 2	26.4	35.0	36.8	41.0	50.7	57.8	68.7	86.5	**91.5**	96.1	105.9	106.9	101.0	95.7
B. Bound Tests														
B1. Real GDP grow th at historical average minus one standard deviation in 2011/12-2012/13	26.4	32.8	32.5	33.4	38.5	41.8	48.0	56.1	**58.7**	61.4	67.1	67.4	62.2	58.4
B2. Export value grow th at historical average minus one standard deviation in 2011/12-2012/13 3/	26.4	45.1	66.2	62.4	65.9	67.3	73.9	79.6	**81.4**	82.9	83.3	81.8	71.4	66.0
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011/12-2012/13	26.4	33.1	31.9	32.8	37.8	41.1	47.1	55.0	**57.6**	60.3	65.9	66.2	61.1	57.4
B4. Net non-debt creating flow s at historical average minus one standard deviation in 2011/12-2012/13 4/	26.4	41.0	37.6	37.5	41.9	44.7	50.6	57.8	**60.1**	62.2	66.5	66.4	60.5	56.6
B5. Combination of B1-B4 using one-half standard deviation shocks	26.4	51.8	84.5	78.8	82.2	83.0	90.4	95.9	**97.6**	98.9	97.6	95.3	82.1	75.6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011/12 5/	26.4	43.8	41.8	43.0	49.5	53.8	61.8	72.2	**75.6**	79.0	86.4	86.7	80.1	75.2

Table 2.Liberia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009/10-2029/30 (Concluded)
(In percent)

	Projections													
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2019/20	**2020/21**	2021/22	2024/25	2025/26	2028/29	2029/30
							Debt service-to-exports ratio							
Baseline	0.7	0.9	0.7	0.6	0.7	0.7	0.8	0.7	**0.6**	0.4	0.4	0.5	0.8	0.9
A. Alternative Scenarios														
A1. Key variables at their historical averages in 2010/11-2030-31 1/	0.7	0.9	0.9	0.9	1.0	1.0	1.2	1.5	**1.5**	1.7	2.5	2.9	3.8	4.0
A2. New public sector loans on less favorable terms in 2010/11-2030-31 2	0.7	0.9	0.8	0.7	0.9	0.9	1.2	1.4	**1.2**	1.0	1.3	1.5	1.9	2.0
B. Bound Tests														
B1. Real GDP growth at historical average minus one standard deviation in 2011/12-2012/13	0.7	0.9	0.7	0.6	0.7	0.7	0.8	0.7	**0.6**	0.4	0.4	0.5	0.8	0.9
B2. Export value growth at historical average minus one standard deviation in 2011/12-2012/13 3/	0.7	1.0	1.0	1.0	1.0	1.0	1.1	1.0	**0.8**	0.7	1.1	1.2	1.5	1.6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011/12-2012/13	0.7	0.9	0.7	0.6	0.7	0.7	0.8	0.7	**0.6**	0.4	0.4	0.5	0.8	0.9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011/12-2012/13 4/	0.7	0.9	0.8	0.7	0.7	0.7	0.8	0.8	**0.6**	0.5	0.5	0.6	0.9	1.0
B5. Combination of B1-B4 using one-half standard deviation shocks	0.7	1.1	1.2	1.2	1.3	1.2	1.3	1.3	**1.0**	1.0	1.5	1.7	2.0	2.1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011/12 5/	0.7	0.9	0.7	0.6	0.7	0.7	0.8	0.7	**0.6**	0.4	0.4	0.5	0.8	0.9
							Debt service-to-revenue ratio							
Baseline	1.3	2.2	1.8	1.6	2.2	2.2	2.6	2.3	**1.7**	1.2	1.3	1.6	2.0	2.0
A. Alternative Scenarios														
A1. Key variables at their historical averages in 2010/11-2030-31 1/	1.3	2.3	2.3	2.2	3.0	3.3	4.1	4.9	**4.7**	5.2	7.4	8.3	9.3	9.0
A2. New public sector loans on less favorable terms in 2010/11-2030-31 2	1.3	2.2	2.0	1.9	2.7	3.0	4.2	4.3	**3.9**	3.0	3.9	4.2	4.6	4.5
B. Bound Tests														
B1. Real GDP growth at historical average minus one standard deviation in 2011/12-2012/13	1.3	2.3	2.0	1.7	2.3	2.4	2.8	2.5	**1.9**	1.2	1.4	1.7	2.2	2.2
B2. Export value growth at historical average minus one standard deviation in 2011/12-2012/13 3/	1.3	2.2	2.0	2.0	2.6	2.6	3.0	2.7	**2.0**	1.8	2.7	2.8	3.0	2.9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011/12-2012/13	1.3	2.3	1.9	1.7	2.3	2.3	2.8	2.5	**1.8**	1.2	1.4	1.6	2.1	2.1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011/12-2012/13 4/	1.3	2.2	1.9	1.7	2.3	2.3	2.7	2.4	**1.8**	1.5	1.6	1.8	2.2	2.2
B5. Combination of B1-B4 using one-half standard deviation shocks	1.3	2.3	2.2	2.3	2.9	2.9	3.4	3.0	**2.3**	2.2	3.4	3.5	3.6	3.4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011/12 5/	1.3	3.1	2.6	2.2	3.0	3.1	3.6	3.2	**2.4**	1.6	1.8	2.2	2.8	2.8
Memorandum item:														
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	48	48	48	48	48	48	48	48	**48**	48	48	48	48	48

Sources: Country authorities; and staff estimates and projections.

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/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ 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).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ 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.

Table 3. Liberia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010/11- 2029/30
(In percent of GDP, unless otherwise indicated)

	Average	Standard Deviation	Estimate 2010/11	Projections 2011/12	2012/13	2013/14	2014/15	2015/16	2019/20	2020/21	2021/22	2024/25	2025/26	2028/29	2029/30
Public sector debt 1/			13.2	14.6	16.4	19.9	23.5	26.6	34.4	35.3	36.1	37.4	37.8	38.8	39.1
o/w foreign-currency denominated			13.2	13.6	14.5	17.2	20.1	22.6	28.4	29.0	29.4	29.8	29.8	30.0	30.0
Change in public sector debt			-173.4	1.4	1.8	3.5	3.6	3.1	1.2	1.0	0.8	0.4	0.4	0.3	0.3
Identified debt-creating flows			-174.4	-0.8	1.8	3.5	3.7	3.4	0.8	0.5	0.3	0.0	0.0	0.0	0.0
Primary deficit	-1.5	2.2	-1.5	0.8	3.2	4.2	4.9	4.9	2.6	2.3	2.1	1.5	1.4	1.2	1.1
Revenue and grants			34.5	29.0	31.7	34.8	34.5	34.7	31.5	31.0	30.6	29.7	29.9	32.9	34.9
of which: grants			3.6	3.1	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Primary (noninterest) expenditure			33.0	29.8	34.9	39.0	39.4	39.6	34.1	33.3	32.7	31.2	31.3	34.1	36.1
Automatic debt dynamics			-24.9	-1.6	-1.5	-0.7	-1.2	-1.5	-1.8	-1.8	-1.8	-1.4	-1.4	-1.2	-1.2
Contribution from interest rate/growth differential			-12.4	-0.9	-1.1	-0.9	-1.3	-1.5	-1.6	-1.6	-1.6	-1.4	-1.4	-1.2	-1.2
of which: contribution from average real interest rate			-1.5	0.1	0.1	0.2	0.2	0.1	0.0	0.0	0.0	0.1	0.1	0.2	0.2
of which: contribution from real GDP growth			-10.9	-1.0	-1.2	-1.0	-1.4	-1.6	-1.5	-1.6	-1.6	-1.5	-1.5	-1.4	-1.4
Contribution from real exchange rate depreciation			-12.5	-0.7	-0.4	0.2	0.1	0.0	-0.2	...	...	...	...	...	...
Other identified debt-creating flows			-148.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)			-148.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes			1.0	2.2	0.1	0.1	-0.2	-0.3	0.4	0.5	0.5	0.4	0.4	0.3	0.3
Other Sustainability Indicators															
PV of public sector debt			10.8	11.6	12.4	14.3	15.9	17.5	21.6	22.4	23.1	24.9	25.3	26.5	26.8
o/w foreign-currency denominated			10.7	10.5	10.5	11.6	12.5	13.5	15.7	16.0	16.4	17.2	17.4	17.7	17.8
o/w external			8.2	8.4	8.6	9.9	11.2	12.3	14.8	15.2	15.6	16.5	16.8	17.2	17.3
PV of contingent liabilities (not included in public sector debt)			...	...	...	...	...	...	...	...	...	...	...	...	...
Gross financing need 2/			-0.9	1.6	4.0	5.0	6.2	6.0	3.9	3.4	3.1	2.6	2.6	2.7	2.7
PV of public sector debt-to-revenue and grants ratio (in percent)			31.2	39.9	39.1	41.0	46.1	50.3	68.6	72.1	75.5	83.6	84.6	80.7	76.8
PV of public sector debt-to-revenue ratio (in percent)			34.7	44.7	44.1	45.7	51.5	56.1	77.5	81.6	85.6	95.2	96.2	90.7	85.7
o/w external 3/			26.4	32.3	30.7	31.6	36.3	39.5	53.0	55.5	58.0	63.4	63.7	58.8	55.2
Debt service-to-revenue and grants ratio (in percent) 4/			1.7	2.7	2.4	2.3	3.7	3.1	4.0	3.6	3.3	3.8	4.1	4.6	4.5
Debt service-to-revenue ratio (in percent) 4/			1.8	3.0	2.8	2.6	4.1	3.5	4.5	4.1	3.7	4.3	4.7	5.1	5.0
Primary deficit that stabilizes the debt-to-GDP ratio			172.0	-0.6	1.4	0.7	1.3	1.8	1.4	1.3	1.3	1.1	1.0	0.9	0.9
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.4	1.8	6.2	8.3	8.6	6.8	7.7	7.2	4.9	4.9	4.8	4.1	4.1	3.8	3.8
Average nominal interest rate on forex debt (in percent)	0.1	0.2	0.1	1.1	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Average real interest rate on domestic debt (in percent)	-5.2	6.4	-8.0	490.5	12.3	11.8	9.7	8.0	5.9	5.9	5.9	6.1	6.2	6.4	6.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.3	5.0	-7.2	...	...	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.5	4.5	12.0	12.0	8.5	3.5	4.0	4.9	6.0	5.9	5.8	5.4	5.3	4.9	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	0.4	0.2	0.0	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Grant element of new external borrowing (in percent)	…	…	23.5	40.4	51.6	51.6	51.6	51.6	51.6	51.6	51.6	51.6	51.6	51.6	51.6

Sources: Country authorities; and staff estimates and projections.

1/ The public sector comprises the central government, the Central Bank of Liberia (CBL), public enterprises, and other official entities.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are derived over 2004/05-2009/10.

Table 4. Liberia: Sensitivity Analysis for Key Indicators of Public Debt, FY2010/11-FY2029/30

	Projections												
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2019/20	2020/21	2021/22	2024/25	2025/26	2028/29	2029/30
	PV of Debt-to-GDP Ratio												
Baseline	10.8	11.6	12.4	14.3	15.9	17.5	21.6	22.4	23.1	24.9	25.3	26.5	26.8
A. Alternative scenarios													
A1. Real GDP growth and primary balance are at historical averages	10.8	9.4	5.8	2.1	-2.4	-6.6	-17.5	-19.0	-20.2	-23.1	-24.0	-26.7	-27.5
A2. Primary balance is unchanged from 2010/11 1/	10.8	9.3	5.5	1.9	-2.4	-6.4	-17.7	-19.4	-20.9	-25.0	-26.4	-30.8	-32.3
A3. Permanently lower GDP growth 2/	10.8	11.7	12.8	15.1	17.2	19.4	26.9	28.7	30.5	36.1	38.1	44.8	47.4
B. Bound tests													
B1. Real GDP growth is at historical average minus one standard deviations in 2011/12-2012/13	10.8	12.9	16.3	20.6	24.5	28.2	39.9	42.2	44.4	50.8	52.8	59.2	61.4
B2. Primary balance is at historical average minus one standard deviations in 2011/12-2012/13	10.8	11.4	9.6	11.6	13.3	15.0	19.4	20.3	21.0	22.9	23.5	24.8	25.1
B3. Combination of B1-B2 using one half standard deviation shocks	10.8	10.6	8.0	11.9	15.6	19.0	29.6	31.7	33.8	39.4	41.1	46.5	48.3
B4. One-time 30 percent real depreciation in 2011/12	10.8	15.4	15.2	16.2	16.9	17.6	20.5	21.3	22.1	24.6	25.3	27.2	27.8
B5. 10 percent of GDP increase in other debt-creating flows in 2011/12	10.8	21.6	21.5	23.2	24.5	25.7	28.9	29.4	29.9	31.2	31.5	32.4	32.7
	PV of Debt-to-Revenue Ratio 3/												
Baseline	31.2	39.9	39.1	41.0	46.1	50.3	68.6	72.1	75.5	83.6	84.6	80.7	76.8
A. Alternative scenarios													
A1. Real GDP growth and primary balance are at historical averages	31.2	32.4	18.2	5.9	-6.8	-18.8	-55.5	-61.2	-66.3	-78.5	-81.2	-82.7	-80.4
A2. Primary balance is unchanged from 2010/11 1/	31.2	31.9	17.4	5.5	-6.8	-18.3	-56.2	-62.6	-68.4	-84.1	-88.1	-93.8	-92.5
A3. Permanently lower GDP growth 2/	31.2	40.4	40.3	43.2	49.8	55.7	85.1	92.0	99.2	120.8	126.4	135.3	134.7
B. Bound tests													
B1. Real GDP growth is at historical average minus one standard deviations in 2011/12-2012/13	31.2	44.3	51.0	58.7	70.5	80.5	125.4	134.7	143.9	169.3	174.7	178.4	174.4
B2. Primary balance is at historical average minus one standard deviations in 2011/12-2012/13	31.2	39.3	30.4	33.3	38.7	43.2	61.7	65.3	68.8	77.2	78.4	75.3	71.8
B3. Combination of B1-B2 using one half standard deviation shocks	31.2	36.4	25.1	34.0	44.8	54.5	93.3	101.5	109.6	131.7	136.5	140.5	137.5
B4. One-time 30 percent real depreciation in 2011/12	31.2	53.2	48.1	46.6	48.8	50.6	65.0	68.5	72.2	82.9	84.6	82.9	79.5
B5. 10 percent of GDP increase in other debt-creating flows in 2011/12	31.2	74.4	68.1	66.7	71.0	73.9	91.7	94.7	97.7	105.0	105.3	98.7	93.5
	Debt Service-to-Revenue Ratio 3/												
Baseline	1.7	2.7	2.4	2.3	3.7	3.1	4.0	3.6	3.3	3.8	4.1	4.6	4.5
A. Alternative scenarios													
A1. Real GDP growth and primary balance are at historical averages	1.7	2.7	2.2	1.6	2.4	1.1	-0.4	-1.2	-1.9	-3.9	-4.6	-5.9	-5.9
A2. Primary balance is unchanged from 2010/11 1/	1.7	2.7	2.2	1.5	2.3	1.1	-0.4	-1.2	-2.0	-4.3	-5.1	-6.9	-7.0
A3. Permanently lower GDP growth 2/	1.7	2.7	2.5	2.4	3.8	3.3	4.6	4.3	4.1	5.2	5.8	7.0	7.2
B. Bound tests													
B1. Real GDP growth is at historical average minus one standard deviations in 2011/12-2012/13	1.7	2.7	2.7	2.8	4.6	4.2	6.1	5.9	5.7	7.8	8.6	10.2	10.3
B2. Primary balance is at historical average minus one standard deviations in 2011/12-2012/13	1.7	2.7	2.4	2.0	3.4	2.9	3.8	3.4	3.0	3.2	3.5	4.0	4.0
B3. Combination of B1-B2 using one half standard deviation shocks	1.7	2.7	2.4	1.9	3.5	3.2	4.9	4.7	4.5	5.1	5.8	7.4	7.5
B4. One-time 30 percent real depreciation in 2011/12	1.7	3.1	3.2	3.0	4.7	4.2	5.2	4.6	4.1	4.8	5.3	6.1	6.0
B5. 10 percent of GDP increase in other debt-creating flows in 2011/12	1.7	2.7	3.6	3.5	4.7	4.1	4.9	4.5	4.1	6.0	6.3	6.4	6.2

Sources: Country authorities; and staff estimates and projections.

1/ Negative debt and debt service results from the primary balance remaining unchanged in a surplus position throughout the forecast period.
2/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
3/ Revenues are defined inclusive of grants.

Press Release No. 11/258
FOR IMMEDIATE RELEASE
June 27, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review Under the Arrangement under the Extended Credit Facility and Approves US$7 Million Disbursement for Liberia

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Liberia's economic performance under the arrangement under the Extended Credit Facility (ECF). The completion of this review will enable an immediate disbursement in an amount equal to SDR 4.44 million (about US$7 million), bringing total disbursements under the arrangement to SDR 239.02 million (about US$379.7 million). The Executive Board also approved the authorities' request for an extension of the arrangement through March 31, 2012, and an augmentation of access of SDR 8.88 million (about US$13 million), equivalent by about 6.9 percent of quota, bringing total access under the arrangement to SDR 247.9 million (about US$394 million).

The ECF arrangement for Liberia was initially approved in March 2008, for an amount of SDR 239.02 million (about US$379.7 million; see Press Release No. 08/52). Liberia subsequently received debt relief from the IMF (about US$730 million); see Press Release No. 10/267 of which SDR 205.8 million was applied towards the current ECF arrangement.

Following the Executive Board's discussion on Liberia, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair stated:

"The Liberian authorities continue to implement sound macroeconomic policies and are making progress with their broad-based reform program. Growth is expected to pick up in 2011, bolstered by increasing foreign investment, the reserve position is comfortable, and inflation is projected to remain broadly stable despite rising commodity prices. Nonetheless, non-performing loans are rising in the banking sector and strong financial oversight is essential.

"The fiscal program for FY2012 is well conceived. The emphasis on social and other priority spending is appropriate, as is the use of realistic revenue estimates. Contingency plans are in place to allocate efficiently uncertain revenues and grants, should they materialize. The budget for FY2012 anticipates a resumption of external borrowing on concessional terms consistent with long-term debt sustainability. Renewed efforts are needed to address capacity constraints that hamper execution of the public investment program.

"The authorities are pressing ahead with detailed reform agendas in key areas, including the financial sector, public financial management, tax policy, tax administration, and statistics. Financial sector reforms are designed to preserve stability, improve infrastructure, and promote intermediation in support of private sector-led growth; expenditure and revenue reforms aim at improving the quality of institutions and promoting the efficient use of resources; and efforts to improve statistics focus on compiling a comprehensive set of national accounts to improve economic management and planning," added Mr. Shinohara.

Statement by Moeketsi Majoro, Executive Director for Liberia

June 27, 2011

Introduction

My Liberian authorities are appreciative of the IMF's continuous engagement and value the support under the Extended Credit Facility (ECF) arrangement. They also appreciate the candid exchange of views with staff during the mission on the sixth review of the ECF arrangement. My Liberian Authorities agree broadly with the staff report. It is in this regard that my authorities solicit the Executive Board's support in completing the sixth review under the ECF arrangement, and request an extension of the arrangement and augmentation of access.

Recent Economic Developments

Implementation of sound macroeconomic policies, structural reforms and the promotion of business and investment have resulted in an impressive improvement in Liberia's economic performance in recent years. Real GDP growth in 2010 is estimated at 5.6 percent, up from 4.5 percent in 2009 and attributed largely to strong performance in the agriculture and services sectors. Consumer price developments show a relatively stable inflationary environment as the quarterly average inflation rate rose marginally by 0.5 percent to 6.2 percent at end-March 2011, due mainly to the re-emergence of the global food and fuel price increases. The broad exchange rate stability experienced in 2010 continued in the first five months of 2011, reflecting interventions by the Central Bank of Liberia (CBL) and the growth in US dollar remittances. The country's gross international reserves increased to 3.4 months of imports of goods and services in 2010 from 3.2 months in 2009.

Program Performance

My Liberian authorities have continued their strong commitment to implementing the policies outlined in the ECF-supported program, amidst some daunting exogenous shocks. All performance criteria through end-December 2010 were met. However, implementation of the remaining three structural benchmarks (relating to publication of national accounts statistics, extension of the ASYCUDA system and financial reporting of state enterprises) through end-march 2011 was slower than expected. Accordingly, my authorities are making efforts to publish provisional national accounts data after consultation with data users. Similarly, the ASYCUDA system in Customs will be extended to the international airport once funding is secured. Also, the delay in regular financial reporting by state-owned enterprises to the Ministry of Finance will be regularized in the coming months.

Outlook

The overriding policy objective of my Liberian authorities in 2011 and beyond is to strengthen macroeconomic policy, deepen structural reforms and improve the business environment to enhance growth, employment creation and poverty reduction. Against this backdrop, growth over the medium term is expected to remain strong with the economy expanding on average about 8 percent over the next five years. This robust growth is expected to be aided by the enclave sector, especially iron ore and potentially petroleum as well as agriculture and forestry. Increasing fuel and food prices will accelerate inflation during 2011, though it is expected to remain below the average rates seen during the 2008 fuel and food price hikes with broad exchange rate stability. The gross international reserves of the CBL in terms of months of import cover is estimated to decrease from 3.4 percent in 2010 to 2.7 percent and 2.1 percent in 2011 and 2012 respectively, due mainly to the higher import costs of fuel and food coupled with the expected high growth and development-related imports.

Fiscal Policy

The overarching fiscal policy of my Liberian authorities is to remain consistent with the Public Financial Law of 2009. To attain this objective, a Budget Framework Paper (BFP) has been prepared outlining some of the main macroeconomic assumptions of the financing plans for the financial year (FY) 2011/2012 budget. Among these is the debt strategy that restricts deficit financing to a maximum of 3 percent of GDP. The BFP also highlights the potential risks to the budget particularly in these times of rising price volatility.

The FY 2011/2012 budget will be implemented in accordance with the following key considerations: (1) align the budget more closely to national policy objective, especially targeting the unfinished PRS deliverables; (2) effective programming and expenditure planning to avoid painful streamlining of expenditure; (3) promote government investment; (4) carefully manage the post-HIPC public debt portfolio; and (5) prepare for emergency expenditures. These will pave the way for the launching of the Medium Term Expenditure Framework (MTEF) in FY 2012/2013 as required by law and in conformity with international best practice.

Monetary and Exchange Rate Policies

The maintenance of broad exchange rate stability and low inflation continues to be the focus of monetary policy by the CBL. Given the limited tools for monetary policy, the required reserve ratio and the weekly foreign exchange auction remain the key instruments used to influence the level of domestic liquidity. The probable introduction of a treasury bills market in 2011 will broaden the scope of policy instruments available to the CBL for the conduct of monetary policy.

The CBL will continue to intervene in the foreign exchange market in order to maintain broad exchange rate stability. In this regard, a liquidity monitoring framework has been developed to inform decision making relative to the level of intervention in the foreign exchange market. This framework also provides the basis for liquidity forecasting. Accordingly, continued efforts will be made by the CBL towards improving its forecasting capability.

Financial Sector Policy

The banking industry in Liberia continues to exhibit signs of resilience to the effects of the financial crisis evidenced by the growth in assets, capital and reserves. Furthermore, there were positive developments with respect to ensuring stability and protecting the integrity of the banking sector through more robust regulation and supervision; enhancing the operating environment; and improving transparency and disclosure of financial information. However, non-performing loans (NPLs) as a ratio of gross loans continued to increase and stood at 28.5 percent at end-February 2011. The growth in NPLs remains one of the key challenges in the banking sector, impeding on the profitability of the industry and posing a potential threat to continued lending to the private sector. In view of these, the CBL has intensified on-site credit examinations and has encouraged commercial banks to improve risk management systems. This, coupled with the establishment of a special commercial court to ensure timely adjudication of commercial contracts and the new commercial code, will improve the credit environment and culture in Liberia.

The CBL has amended its existing directive on display of interest rates and computation of lending rates to promote greater disclosure by commercial banks to protect customers. This requirement is intended for banks to display lending and deposit rates at conspicuous locations within their premises in order to provide customers with adequate information to enable them to make the right decision on the cost of borrowing and savings.

Finally, to promote the provision of financial lease services in Liberia, the CBL in collaboration with the International Finance Corporation (IFC), hosted two workshops in February and March, 2011 with the objective to develop the skills required by commercial banks' staff and CBL to carry out finance lease activities. Against this development, the CBL promulgated a finance lease regulation to provide the general framework for banks to engage in this activity. This type of lending will allow banks to directly finance the purchase of needed equipment and working capital critical to the development of the SME sector and help support the country's reconstruction.

Debt Management Policy

Though the attainment of HIPC completion point presents borrowing opportunities for Liberia, the authorities recognize that it comes with the responsibility to maintain the path of sustainable debt and fiscal prudence. Accordingly, my authorities are mindful that borrowing, and borrowed funds are used principally for critical investment in infrastructure projects that will have a knock on effect of aiding economic growth. Moreover, as contained in the Debt Management Strategy (DMS), all loans will be approved and monitored by the Debt Management Committee and are to adhere to the reporting requirements set out in the PFM. The authorities will also implement and enforce fiscal rules as contained in the DMS. In this regard, new debt management software, the Commonwealth Secretariat Debt Recording management system (CSDRMS), will be used to ensure that public debt remains within the acceptable post-HIPC completion debt sustainability threshold.

Structural Reforms

In order to ensure effective implementation of the national budget as well as enhance macroeconomic stability and growth in post-HIPC Liberia, my authorities plan to extend some aspects of the PFM framework to local governments consistent with the PFM action plan and the government's commitment to future fiscal decentralization. Furthermore, to deepen and broaden the expedited disbursement procedure, the authorities intend to use a data base management system known as Payment Reassurance Real Time Information System (PARIS), to shorten the time between issuance of checks and encashment. PARIS will also connect the Ministry of Finance with CBL and commercial banks to expedite the check clearing process. Additionally, in order to effectively manage risk associated with budget execution with widely fluctuating cash balances, the authorities will commence the full implementation of cash management and liquidity forecasting with the establishment of a Cash Forecasting Unit (CFU) within the Ministry of Finance. The CFU will monitor and report on current balances, project short-and medium-term cash flows and provide forward estimates of the potential demand for cash.

In the financial sector, the CBL has developed a reform agenda for foreign exchange activities in Liberia following a series of consultative meetings with the leadership and members of the Foreign Exchange Bureau Association and other interested parties. The objective is to modernize the activities of the foreign exchange bureau. Part of the reform is the now-completed restructuring of the foreign exchange bureau association to make it more robust and viable. The reform agenda also include: (1) upgrading the existing guidelines for regulating and supervising foreign exchange business; (2) re-licensing of all existing bureau in keeping with the new guidelines and requirements effective May 1, 2011; and (3) the classification of foreign exchange operators into two categories based on minimum deposit requirements and incentive packages. These reforms will be implemented in stages within specified timeframes up to end-January 2012. In addition, the FIRST Initiative has approved a technical assistance package to develop a regulatory and supervisory framework for non-bank financial institutions in Liberia. The assistance will also include hands-on training of CBL staff as well as the development of a capital market.

Conclusion

In conclusion, I wish to reiterate my Liberian authorities' unwavering commitment to the continuous implementation of prudent economic policies that have led to macroeconomic stability and non-volatile growth, increased FDI flows and debt cancellation. They appreciate the support from the IMF and the international community and count on the continuation of such support to lift Liberia to middle-income status by 2030.